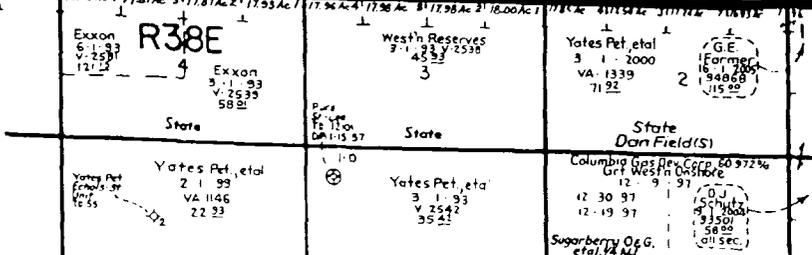


BEFORE THE  
OIL CONSERVATION DIVISION

Case No. 11417 Exhibit No. 1  
Submitted By:  
**MERIDIAN OIL, INC.**  
Hearing Date: November 2, 1995



COCHRAN COUNTY

YOAKU

**EAST ECHOLS PROSPECT**

E/2 SECTION 30, T-10-S, R-38-E

LEA COUNTY, NEW MEXICO

INTEREST	ACREAGE	STATUS
Sugarberry/Global Nat Resources	1/4	80.000000 LEASE
Nations Geophysical/Fina	1/8	40.000000
George W. Horst	2/57	11.200000 LEASE
Edra Mauldin	3/400	2.400000 LEASE
John W. Horst	3/400	2.400000 LEASE
Oleta McMurtrie	3/400	2.400000 LEASE
Darlene Austin	3/400	2.400000 LEASE
Patsy Mancini	3/400	2.400000 LEASE
David Mauldin	3/400	2.400000 LEASE
Pansy Evans	3/400	2.400000 LEASE
Geraldine Randall	3/400	2.400000 LEASE
Wanda Little	3/400	2.400000 LEASE
Maxine Cadwaller	3/400	2.400000 LEASE
Fowone Stirm	3/400	2.400000 LEASE
Sharrin Houssaye	3/400	2.400000 LEASE
Lula Evans Wheelock/Don Birdwell	1/8	40.000000 LEASE
Frank O. Elliott, Trustee	1/16	20.000000 FARMOUT
Edna Ione Hall, Trustee	1/16	20.000000 FARMOUT
Alice J. Dickey	1/16	20.000000
John J. Fleet	1/24	13.333333
William B. Osborn, Jr., Indv.	1/36	8.888889
William B. Osborn, Jr., Trustee	1/48	6.666667
Betty Osborn Biedenhorn, Indv.	1/36	8.888889
Betty Osborn Biedenhorn, Trustee	1/48	6.666667
Charlotte Osborn Barrett Trust	1/48	6.666667 LEASE
Marcus Thurman Barrett, III	1/72	4.444444 LEASE
William Osborn Barrett	1/72	4.444444 LEASE
<b>TOTAL</b>	<b>1</b>	<b>320.000000</b>

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11417 Exhibit No. 2  
Submitted By:  
MERIDIAN OIL, INC.  
Hearing Date: November 2, 1995

**MERIDIAN OIL**

October 13, 1995

Mr. Jim Daniels  
Nations Geophysical, Inc.  
1031 Andrews Highway  
Midland, Texas 79701

Re: Request for Waiver  
3-D Seismic Data  
Lea County, New Mexico

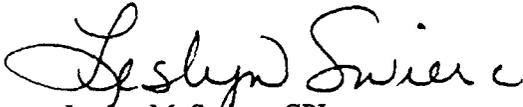
Dear Mr. Daniels

In order for Meridian Oil Inc. ("Meridian") to comply with full disclosure concerning our attempts to drill the Aunt Lula 30 #1, Meridian may be required to reveal confidential seismic data covering all or portions of Sections 19, 20, 29 and 30, T-30-S, R-38-E, Lea County, New Mexico. Meridian respectfully requests Nations Geophysical Inc. waive provision 12 of that certain seismic Data License Agreement dated April 15, 1995, between Meridian Oil Inc., Licensee, and Nations Geophysical Inc., Licensor, to allow Meridian to disclose confidential seismic data to the examiner of the New Mexico Oil Conservation Division, if necessary.

Please signify your agreement to waive said provision by executing in the space provided below and returning one original of this letter to the undersigned on or before October 20, 1995.

Very truly yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encl.

NATIONS GEOPHYSICAL, INC. AGREES to waive the confidentiality provision of that certain Seismic Data License Agreement dated April 25, 1995.

NATIONS GEOPHYSICAL, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11417 Exhibit No. 3  
Submitted By:  
MERIDIAN OIL INC

## MERIDIAN OIL

September 21, 1995

Mr. Brian Lucas  
Nations Geophysical, Inc.  
1031 Andrews Highway, Suite 207  
Midland, Texas 79701

Re: East Echols Prospect  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico

Dear Brian:

In our previous discussions, it was brought to Meridian's attention that Nations Geophysical, Inc. ("Nations") is the current lessee of the 1/8th mineral interest owned by Fina Oil and Chemical ("Fina") in the captioned lands. The oil and gas lease held by Nations reserves to Fina a 1/4th royalty before payout, increasing to a 30% royalty after payout of each well.

Meridian Oil Inc ("Meridian") is proposing the drilling of the Aunt Lula 30 #1 (the "Well"), a 9,900' Wolfcamp test located 1980' FSL & 660' FEL Section 30, T-10-S, R-38-E, Lea County, New Mexico. Enclosed for your review and execution is an AFE in the amount of \$820,000 to drill, complete and equip the Well. If you elect to participate in the drilling of the Well, please execute and return the AFE to the undersigned by October 6, 1995. Upon Meridian's receipt of said AFE, Meridian and Nations will enter into a mutually-acceptable Operating Agreement using AAPL form 610 (1982) Joint Operating Agreement which (a) designates Meridian Oil Inc. as operator, (b) provides in Article VI.B.2. for recoupment of 300% of all well costs through the wellhead in the event of operations by less than all parties, (c) omits the provision for the preferential right to purchase, and (d) provides in Article VII.D.1. for a casingpoint election. An Exhibit "C" (Accounting Procedure), Exhibit "D" (Insurance Requirements) and Exhibit "E" (Gas Balancing Agreement) will also be forwarded for your review.

If, however, Nations should elect not to participate in the drilling of the Well, Nations could propose to grant Meridian a term assignment of its 12.5% leasehold interest under the E/2 Section 30, T10S, R38E, which would result in Meridian owning an additional 12.5% working interest in the Well, relieving Nations of any costs to drill same. With the heavy burdens Fina has placed upon its interest (75% effective net before payout, 70% effective net after payout) Meridian could not accept a term assignment. Therefore, Meridian respectfully requests that Nations release the captioned lands to Fina so that Meridian may attempt to negotiate a lease from Fina which delivers a higher net revenue interest to Meridian.

Mr. Brian Lucas  
Nations Geophysical, Inc.  
September 21, 1995  
Page 2

It is essential that Meridian be delivered no less than an 80% net revenue interest in the proposed well. Should Nations release the E/2 Section 30 to Fina and Meridian and Fina are unable to reach mutually-acceptable lease terms to provide for the drilling of the Well by October 15, 1995, this well will be scheduled for a compulsory pooling hearing to be held on November 2, 1995.

If Nations does not release the acreage to Fina, Meridian is prepared to seek appropriate remedies from the New Mexico Oil Conservation Division for the excessive burdens attached to the 1/8th mineral interest leased by Nations. If Nations is forced pooled, there are existing cases which actually set aside the excessive burdens until an operator has achieved payout plus the appropriate penalties. This means that Nations could potentially be held responsible to Fina for the difference between a 1/4th royalty and a 1/8th royalty.

I would prefer to discuss this proposal in person; however, I am presenting same in writing in accordance with your request. I may be reached at 688-6928 to answer any questions you may have with respect to this matter. Thank you for your prompt attention.

Very truly yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs

cc: Jim Behrmann  
Don Davis

Tom Kellahin  
Kellahin & Kellahin  
P. O. Box 2265  
Santa Fe, New Mexico 87504-2265

Midland Region  
P.O. Box 51810  
Midland, Texas 79710-1810  
(915) 688-6800

Date: \_\_\_\_\_  
AFE No.: \_\_\_\_\_

**MERIDIAN OIL INC.  
AUTHORITY FOR EXPENDITURE**

Foreman Area Team Name Hobbs Foreman Area

Lease/Well Name: Aunt Lula "30" #1 DP No. \_\_\_\_\_  
Field/Prospect: East Echols (Wolfcamp) Field Region: Midland  
Location: 1980' FSL & 660' FEL, Sec 30, T10S, R38E County: Lea State: New Mexico  
AFE Type: New Drill Well Original  Supplement  Addendum \_\_\_\_\_ Cost Center \_\_\_\_\_  
API Well Type: Exploratory Operator Meridian Oil  
Objective Formation: Wolfcamp Authorized Total Depth (Feet) 9,900'  
Project Description: Drill, complete and equip a Wolfcamp wildcat well in the East Echols Field.

Est. Start Date: Oct. 15, 1995  
Est. Completion Date: Nov. 7, 1995

Prepared By Chet A. Babin

**GROSS WELL COST DATA**

	DRILLING		WORKOVER	CONSTRUCTION	TOTAL
	DRY HOLE	SUSPENDED	COMPLETION	OR FACILITY	
DAYS: THIS AFE:	\$428,800	\$522,300	\$107,200	\$190,500	\$820,000
PRIOR AFE's:					
TOTAL COSTS:	\$428,800	\$522,300	\$107,200	\$190,500	\$820,000

**JOINT INTEREST OWNERS**

COMPANY	WORKING INTEREST PERCENT %	NET \$ EXPENDITURES	
		DRYHOLE \$	COMPLETED \$
OTHERS	62.5%	268,000	512,500
MERIDIAN OIL INC.:	37.5%	160,800	307,500
AFE TOTAL:	100.0%	\$428,800	\$820,000

**MERIDIAN OIL APPROVAL**

Recommended: \_\_\_\_\_ Date: \_\_\_\_\_ Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
Recommended: \_\_\_\_\_ Date: \_\_\_\_\_ Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
Recommended: \_\_\_\_\_ Date: \_\_\_\_\_ Approved: \_\_\_\_\_ Date: \_\_\_\_\_

**PARTNER APPROVAL**

Company Name: \_\_\_\_\_ Authorized By: \_\_\_\_\_  
Date: \_\_\_\_\_ Title: \_\_\_\_\_

688-0640  
Kitty Cloutier



September 5, 1995

Meridian Oil  
P. O. Box 51810  
Midland, Texas 79710-1810

ATTN: Leslyn Swierc, Land Department

Re: **Oil and Gas Lease Request**  
**E/2 of Sec. 30, T10S, R38E**  
**Lea County, New Mexico**  
**Fina 09RPTX1560-000**  
12.5% MI

Dear Leslyn,

In response to your letter of July 5, 1995 regarding the above referenced, please be advised that Fina Oil and Chemical Company is agreeable to leasing the subject lands on the following terms:

1. \$100.00 per mineral acre bonus
2. 1 year paid-up lease on Fina's lease form
3. 1/4 royalty

A copy of Fina's lease form is being forwarded herewith for your review.

Should these terms be acceptable, please contact me at (915) 688-0646 and thank you for your interest in Fina minerals.

Sincerely,

A handwritten signature in cursive script that reads "Darrell Garrett".

Darrell Garrett  
Senior Landman





f. Lessor shall have the first and preferential right of refusal to purchase oil or gas produced pursuant to the terms of this lease. This right shall be exercised by acceptance in writing conveyed to Lessee within thirty (30) days from date Lessor received written notice of the terms and conditions of a third-party offer to purchase oil or gas.

Notwithstanding anything contained in Article 3.a hereinabove, proceeds from any sale between Lessee and any non-affiliated company or person negotiated in good faith and at arms' length shall be deemed to be market value for the purposes of Article 3.

g. Lessor's royalty, including that paid in kind, is to be free and clear of all exploring, producing, developing, processing, gathering, marketing, compressing, dehydrating, separating, treating, and transporting costs as well as all claims, charges, expenses, taxes, overriding royalties, and other royalties, provided, however, that Lessor's royalty shall bear its proportionate part of all windfall profit taxes, if any, and ad valorem, severance, gross production, and other similar taxes levied on or measured by production from the leased premises.

4. This is a paid-up lease and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provisions of Article 3 hereof.

5. Lessee is hereby granted the right and power to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation division of the Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units shall be designated before the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If, after the expiration of the primary term, any well upon said land should become incapable of producing for any cause, the lease shall not terminate if Lessee commences operations for additional drilling or for reworking within sixty (60) days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced in paying quantities hereunder. If at or after the expiration of the primary term any well ceases to produce, but Lessee has commenced actual drilling or reworking operations thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than thirty (30) consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if said operations result in the commercial production of oil or gas, so long thereafter as oil or gas is produced from said land.

7. Lessee shall have the right for 120 days after the expiration of this lease, or any part thereof, to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without Lessor's consent. Failure to remove all property and fixtures from the above terminated leased acreage within the time period specified above shall, at Lessor's option, cause a forfeiture of said property and fixtures for the benefit of Lessor.

8. The provisions of this lease shall extend to and bind the successors and assigns of the parties hereto and shall constitute covenants running with the land hereby leased, and any assignment of this lease, in whole or in part, shall contain indemnification language as set forth in Paragraph 17 herein. In order to assure Lessor that operations hereunder shall be conducted by responsible parties and that the maximum amount of production shall be obtained hereunder, Lessee agrees that no assignment of Lessee's interest shall be made without the prior written consent of Lessor, and Lessor shall be furnished with a complete address and telephone number of any assignee of this lease, in addition to recorded copies of any and all assignments of this lease.

9. Should Lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's duty shall be suspended, and Lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

10. It is expressly understood and agreed that this lease is executed by Lessor without any warranty, expressed or implied.

11. If this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Shut-in royalty as provided for in Article 3.e hereinabove, shall not be reducible by this provision.

12. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or his heirs, successors and assigns by recording a release in the county in which said land is situated and mailing a certified copy of said release thereof to the Lessor. Lessee thereupon shall be relieved from any future obligations, expressed or implied, of this agreement as to acreage so surrendered.

13. At the expiration of the primary term created hereby or at the conclusion of the continuous drilling program as hereinafter defined, whichever occurs later, this lease shall terminate as to 1) all of the land covered hereby except as to those lands which are included within the geographical boundaries of a proration unit in conformity with field rules or spacing laws of the applicable governmental body on which there is located a well capable of producing oil and/or gas and 2) all depths fifty feet (50') below the deepest producing formation in each proration unit. A continuous drilling program is defined as the period commencing at the expiration of the primary term during which Lessee conducts good faith drilling operations with no cessation of more than one hundred twenty (120) days between completion or plugging and abandonment of one well and commencement of actual drilling operations on a succeeding well, and with drilling operations on each well being conducted with no cessation of more than thirty (30) consecutive days.

If at any time after the expiration of the primary term or at the conclusion of the continuous drilling program, the applicable field rules are changed or the well or wells located thereon are reclassified as oil or gas wells so that less acreage is thereafter allocated to said well or wells for spacing purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for spacing purposes unless Lessee begins a continuous development program on the unproductive acreage as outlined in Paragraph 13 above.

Lessee agrees to execute and record release or partial release of lease, as applicable, and forward the recorded release to Lessor within ninety (90) days following the date this lease expires or terminates as to that acreage or depth which expires or terminates or is to be released under the terms and provisions hereof. Failure to furnish such recorded release or partial release of lease to Lessor within the allotted ninety (90) day period shall incur a penalty of Fifty and No/100 Dollars (\$50.00) per day until such release or partial release of lease is received by Lessor.

14. Prior to commencement of drilling operations in connection with any well drilled on said land, Lessee shall furnish to Lessor, at Lessee's expense, notification of the date of commencement of drilling operations including a survey plat of the drillsite location.

15. During drilling operations of any well drilled pursuant to Article 14 hereinabove, and other provisions of this lease, Lessee, agrees to furnish Lessor, at Lessee's expense, the following items:

a. Until the well is completed, weekly drilling and geological reports. Additionally, Lessor shall be furnished copies of hydrocarbon logging unit charts, two (2) copies of electrical log surveys, geophysical surveys, cores and core data, fluid sample analysis and completion information on all drillstem tests made, including pressure charts, within forty-eight (48) hours of the date received by Lessee.

Lessor shall also have the right to receive marked samples and drilling time at ten foot (10') intervals from surface to total depth drilled, if

requested by Lessor.

b. Notification to Lessor shall be made prior to testing, coring, logging, and intent to complete or plug.

c. Copies of all notices and reports, including production reports, filed with the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico and/or other governmental regulatory agencies having jurisdiction.

d. Copies of all title opinions and curative.

The items listed above shall be forwarded to Lessor at 6 Desta Drive, Suite 4400, P. O. Box 2990, Midland, Texas 79705, to the attention of the Land Department, until otherwise notified by Lessor and shall be treated by Lessor as confidential.

16. The obligations contained in Paragraph 14 and Paragraph 15 shall be deemed conditions and not mere covenants of this agreement. Should Lessee be in breach of any of said conditions, Lessor shall give written notice to Lessee of said breach at which time Lessee shall be given seven (7) days after notification to remedy said breach. Failure to remedy said breach on or before seven (7) days shall result in termination of this lease, at option of Lessor. Notwithstanding the automatic reversion of title into Lessor as set forth herein, Lessee shall promptly make, execute, and deliver to Lessor any instrument or instruments reassigning and reconveying record title to Lessor. Failure of Lessee to execute and deliver to Lessor said instrument or instruments reassigning or reconveying record title to Lessor within thirty (30) days of written notice from Lessor to Lessee, shall result in a penalty of Seventy-Five and no/100 Dollars (\$75.00) per day beginning on the 31st day after written notification is received by Lessee until such time as said instrument or instruments reassigning or reconveying record title to Lessor is received by Lessor. Lessor hereby agrees and all persons are hereby given notice that, upon the termination of this lease in whole or in part (with or without an instrument of release, assignment or reconveyance) Lessor's interest in said land or any part thereof shall be free and clear of any overriding royalty, payment out of production, net profit obligation or carried interest, or any obligation to which it may have been subjected by Lessee. Any such obligations shall cease and terminate and be of no further force and effect as to such part of said land reassigned or reconveyed.

17. Lessee agrees to fully defend, protect and indemnify, and hold harmless Lessor, its employees and agents, from and against each and every claim, demand, action, cause of action or lawsuit, and any liability, cost, expense, damage or loss (including environmental), including attorneys' fees and court costs, that may be asserted against Lessor and Lessee by any third party, including Lessee's employees and agents, arising from or on account of any operations conducted by Lessee or for the benefit of Lessee on the leased premises.

18. In the event a well or wells are brought in on adjacent land and draining a portion of the leased premises, Lessee agrees, within one hundred twenty (120) days after such offset well commences actual production, to drill such offset well or wells as are necessary to prevent such drainage. In lieu of drilling an offset to any such oil or gas well, Lessee shall have the option of either releasing this lease as to the stratigraphic equivalent of the zone or horizon which corresponds with that being produced in the offset well and within a tract of land, the size and configuration of which shall be determined by using the formula set out in Article 13 above, with Lessee retaining all other rights within such tract, or pay Lessor monthly, as compensatory royalty, a sum equal to the payments which would be payable under this lease on the production from such offset well had same been produced from the above leased premises and, as long as Lessee may elect to pay such royalty in lieu of drilling an offset well, Lessee shall have satisfied its offset obligation to Lessor as to such well.

DEFINITIONS AND STANDARD OF CONDUCT: The parties hereto agree that for purposes of this lease, the following definitions and standards shall be applicable:

a. "production", "production in paying quantities", "production in commercial quantities", and "production in paying or commercial quantities" shall have the same meaning for purposes of this lease, namely production in quantities sufficient to yield a return to the holders of the working interest excluding severance taxes, in excess of operating and equipping expenses and costs including overhead and depreciation of assets, even though drilling costs may never be recouped by working interest owners. The review period for purposes of determining whether production is in paying or commercial quantities shall be the 365 consecutive day period chosen by Lessor. There shall be no review period where production ceases. Production in less than paying or commercial quantities shall never be considered as production for purposes of this lease.

b. "oil and/or gas" shall have the meanings or definitions derived from the statutes, laws and court precedent of New Mexico, as such definitions and or meanings may change from time to time.

c. "operations for drilling", "drilling operations", "commencement of drilling operations", "commence operations", "commence drilling operations", "commences drilling operations", "commencement of a well" and "actual drilling operations" shall have the same meaning being (1) the actual entry of the drillbit of a drilling rig, capable of achieving the total depth permitted and approved by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico, into the soil of leased premises and the timely prosecution of such actual drilling operations in good faith and with reasonable diligence to the completion of same as a dry hole or commercial well and (2) the actual re-entry into an existing wellbore with a drilling or workover rig capable or re-entering such well for the purpose of completing such well in previously uncompleted an unproduced zones and the timely prosecution of such actual re-entry operations in good faith and with reasonable diligence, toward the completion of such previously uncompleted and unproduced zone or zones encountered in such wellbore, as either producing or dry zones.

d. "operations for reworking", "reworking operations", "commencement of reworking operation", "commence reworking operations", "commences reworking operations", and "actual reworking operations" shall have the same meaning being the actual re-entry into an existing wellbore with a drilling or workover rig capable of re-entering and reworking an existing zone, or deepening or plugging back into a new zone of any well or wells located on the leased premises including any reworking, repairing or replacement of any personal property, fixtures, and equipment used and/or associated therewith and the re-establishment or enhancement of commercial production of any such well or wells. Such personal property, fixtures and equipment may include but are not limited to the following: gas lift systems, production equipment, storage facilities and compressors. Such actual reworking operations must be timely prosecuted, in good faith and with reasonable diligence and without cessation of more than thirty (30) days, toward the re-establishment of commercial production of oil and gas from such previously producing zone or zones or newly completed zone or zones.

e. "operations" and "other operations" shall be defined as all other lease operations which may be conducted by Lessee under this lease except those defined in c. and d. above. "operations" and "other operations" as defined in this subparagraph e. shall never be the basis for perpetuation of this lease.

f. "completed", or "completion" shall have the same meaning and the date a well is completed shall be on (1) the date of the potential test conducted for Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico purposes or (2) thirty (30) days after the drilling rig is released from such well or (3) the date a well is abandoned as a dry hole, whichever happens sooner.

g. "shut-in": A well shall be considered and defined as "shut-in" on the earlier of the following dates: (1) the date of the potential test conducted for Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico purposes; (2) thirty (30) days after the drilling rig is released; or (3) the day that commercial well ceases actual production.

h. "standard of conduct": The standard of conduct of Lessee in performing all expressed as well as implied obligations, covenants and conditions imposed upon Lessee arising out of this agreement, shall be that of "utmost good faith and fair dealing." Further, Lessee agrees to comply with all local, state and federal laws, rules and regulations.

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

LESSOR:

FINA OIL AND CHEMICAL COMPANY

By: E. A. Nash  
Title: Attorney-in-Fact

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

- I also wish to receive the following services (for an extra fee):
- Addressee's Address
  - Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Fluor Oil & Chemical Co.  
P. O. Box 2159  
Dallas, Texas 75221

4a. Article Number:  
Z 111 002 553

- 4b. Service Type
- Registered
  - Certified
  - Express Mail
  - Insured
  - COD
  - Return Receipt for Merchandise

7. Date of Delivery  
JUN 7 1995

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

5. Signature (Addressee)

6. Signature (Agent)

PS Form 3811, December 1991

\*U.S. GPO: 1993-552-714

DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

Z 111 002 553

**Receipt for Certified Mail**  
No Insurance Coverage Provided  
Do not use for International Mail (See Reverse)

PS Form 3800, March 1993

Special Mailmark	Special Mailmark
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	7/5/95
	686-7034 FAX

## MERIDIAN OIL

July 5, 1995

Fina Oil & Chemical Company  
P. O. Box 2159  
Dallas, Texas 75221

Re: East Echols Prospect  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico  
containing 320 acres, more or less

Gentlemen:

Meridian Oil Inc. is interested in acquiring an oil and gas lease covering the undivided 1/8th mineral interest owned by your company in the captioned acreage. The mineral interest in the captioned acreage stated herein is based upon an examination of the records of Lea County, New Mexico. Meridian is offering to acquire this lease under the following terms:

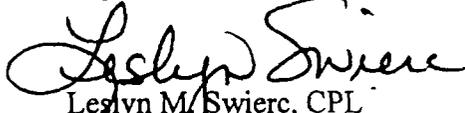
Bonus:	\$40/net acre
Royalty:	1/6th
Primary Term:	Five (5) years
Delay Rental:	\$1.00/acre

The offer detailed herein is subject to verification and delivery of clear title. If you are in agreement with these terms, please execute the enclosed Oil and Gas Lease and draft, fill in your Social Security number and depository bank on the lease and deposit the lease and draft with your bank for collection.

Thank you in advance for your consideration of this request. If you have any questions or comments regarding this proposal, please do not hesitate to call me at (915) 688-6928. I shall look forward to your reply.

Very truly yours,

MERIDIAN OIL INC.

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encls.

MOORE BUSINESS FORMS, INC.

On approval of instrument described hereon, and on approval of title to same by Drawee not later than thirty (30) calendar days after arrival of this draft at collecting bank.

**DRAFT**  
FOR COLLECTION ONLY  
NOT A CASH ITEM

No. **T 20367**

CONTROL NO. \_\_\_\_\_

Prospect **East Echols**

County **Lea**

State **New Mexico**

**July 5**

**1995**

PAY TO **FINA OIL AND CHEMICAL CO.**

**\$ 1,600.00**

**One Thousand Six Hundred and No/100**

DOLLARS

Covering **Oil and Gas Lease covering 1/8th mineral interest in E/2 Section 30, T-10-S, R-38-E, N.M.P.M., 320 gross acres, 40 net acres**

The drawer, payee and endorsers hereof, and the grantors of the instrument described hereon, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time specified subject alone to acceptance of payment hereof by the drawee, within said time, and without any right of the drawer, payee or endorsers hereof, or said grantors to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration.

TO: **MERIDIAN OIL**, Drawee  
NationsBank of Texas, N.A. - Midland 522  
P.O. Box 830200  
Dallas, TX 75283-0200

AUTHORIZED SIGNATORY

MO-0018 (12/88)

Green Copy - Regional Land Department  
Pink Copy - Ft. Worth General Accounting  
Blue Copy - Ft. Worth Land Department  
White Copy - Regional Accounting

GL ACCOUNT CODING

PROPERTY NUMBER

TRANSACTION CODE

AFE

2 4 0 0 1

1

OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 10th day of July, 1995 between Fina Oil & Chemical Company,  
P. O. Box 2159, Dallas, Texas 75221

Meridian Oil Inc., P.O. Box 51810, Midland TX 79710-1810 as Lessor (whether one or more) and  
the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. Description. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants exclusively to Lessee the following described land (use attachment for long descriptions):

T-10-S, R-38-E, N.M.P.M.  
Section 30 E/2

\*Notwithstanding anything contained herein to the contrary, the royalties payable under Paragraph 4 herein shall be 1/6th instead of the stated 1/8th.

In the County of Lea State of New Mexico containing 320.0 acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered.

2. Term of Lease. This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Rental Payment. If on or before the first anniversary date hereof operations for the drilling of a well for oil or gas or other substances covered hereby have not been commenced on the leased premises or land pooled therewith, or if there then is no production in paying quantities from the leased premises or land pooled therewith, then subject to Paragraph 5 below this lease shall terminate as to both parties unless Lessee on or before that date pays to Lessor or to Lessor's credit in the Bank at \_\_\_\_\_ or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land, the sum of \$ 320.00 as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of twelve months from said anniversary date. In like manner and upon like payments, the commencement of operations for the drilling of a well may be further deferred for one or more twelve-month periods during the primary term of this lease. All payments may be made by check or draft mailed or delivered on or before the rental payment date. If the depository bank should liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental payment hereunder, Lessee shall not be held in default for failure to make such payment unless Lessor has delivered to Lessee a proper recordable instrument naming another bank as depository agent to receive payments and Lessee has failed to make such payment within 60 days after receipt of such notice. It is agreed that the cash bonus consideration first recited above covers not only the right to defer drilling during the first year of this lease, but also all subsequent deferrals of drilling as aforesaid, along with all other rights of Lessee hereunder. If on or before any rental payment date Lessee in good faith makes an erroneous rental payment by paying the wrong person, the wrong depository, or the wrong amount, Lessee shall be unconditionally obligated to make proper rental payment for the period involved and this lease shall continue in effect as though such rental payment had been properly made, provided that proper rental payment shall be made within 30 days after receipt by Lessee of written notice of the error from Lessor, accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

\* 4. Royalty Payment. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth of such production to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the Lessee's oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same or nearest field for production of similar grade and gravity; (b) For gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the costs incurred by Lessee in delivering, compressing, processing or otherwise making such gas or other substance merchantable, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same or nearest field pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if a well on the leasehold premises or lands pooled therewith is capable of producing gas (including casinghead gas) but such well is either shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor, and if this lease is not otherwise maintained in effect, such well shall nevertheless be considered as though it were producing gas in paying quantities for the purpose of maintaining this lease, whether during or after the primary term, if Lessee pays shut-in royalty of One Dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository bank designated above, on or before the next ensuing anniversary date of this lease, or within 90 days after such anniversary date, and thereafter on or before each anniversary date hereof while the well is shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor. For the purpose of calculating shut-in royalties, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

5. Operations. If Lessee drills a well incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if production in paying quantities permanently ceases from any cause, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of production, or, should the lease be within the primary term, if Lessee pays rental on or before the next rental payment date (if any) next ensuing after the expiration of said 90-day period; provided that should completion of operations on the dry hole or cessation of production occur less than 90 days before the last rental payment date, no rental payments or further operations shall be required to maintain this lease for the remainder of the primary term. If at the end of the primary term or at any time thereafter this lease is not otherwise being maintained in force, it shall nevertheless remain in force as long as Lessee, without an interruption of more than 90 consecutive days, engages in drilling, reworking or any other operations reasonably calculated to obtain or restore production on the leased premises or lands pooled therewith, and, if such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities.

6. Pooling. Lessee shall have the right but not the obligation to pool all or part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to oil or gas or both, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well shall not exceed 640 acres plus a maximum acreage tolerance of 10%, except that larger units may be formed for oil wells or gas wells to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction. To exercise its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production produced and saved which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction both after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. The restrictions and requirements of this Paragraph 6 shall not apply to compulsory pooling of interest effected by operation of law or by order of any governmental authority having jurisdiction, but all other references to pooling contained in this lease shall include such compulsory pooling as well as pooling effected under this Paragraph 6.

7. Lessor's Interest. If Lessor owns less than the entire and undivided mineral estate in the above-described land or any portion thereof, the royalties, shut-in royalties and rentals herein provided shall be paid to Lessee only in the proportion which Lessor's interest bears to the whole and undivided mineral estate in said land or portion thereof. Any interest in the production from the lands herein described to which the interest of Lessor may be subject, shall be deducted from the royalty herein reserved.

8. Ownership Changes. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 45 days after Lessee has been furnished the originals or certified copies of the documents effecting such change, or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order, which Lessor hereby agrees to execute prior to the payment of royalties hereunder. In the event of the death of any person entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to the credit of decedent or decedent's estate in the depository bank designated above. If at any time two or more persons are entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to such persons or to their credit in the depository bank, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to the interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay rental hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

9. Release of Lease. Lessee may at any time and from time to time deliver to Lessor on file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases an interest in the leased premises, Lessee's obligations for any rentals and shut-in royalties shall not be affected by such release.

10. Ancillary Rights. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or other portions of the leased premises, primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations and other facilities to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. The right of ingress and egress granted hereby shall apply to the entire leased premises notwithstanding any release or other termination affecting any portion thereof. When requested by Lessor in writing, Lessee shall bury its pipelines below plow depth. No well shall be located less than 200 feet from any house or barn now on the leased premises without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises, and to timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises during the term of this lease or within a reasonable time thereafter.

11. Regulation and Delay. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells and the price of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented, materially impeded or delayed by such laws, rules, regulations or orders, or by inability to obtain equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, war, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, nor shall Lessee be liable for breach of any express or implied covenant, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof.

12. Breach or Default. No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to remedy said breach or default. This Paragraph 12 shall not apply to the matters covered in Paragraph 3 hereof.

13. Warranty of Title. Lessor hereby warrants and agrees to defend Lessee's title hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If it exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made and, in addition to its other rights, may reimburse itself out of any rentals, royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of rentals, royalties and shut-in royalties hereunder until Lessee has been furnished satisfactory evidence that such claim has been resolved in Lessor's favor.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

WITNESSES AND/OR ATTESTATION:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

LESSOR (WHETHER ONE OR MORE)  
FINA OIL & CHEMICAL COMPANY

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

SS#: \_\_\_\_\_

**ACKNOWLEDGEMENTS**

For use in Rocky Mountain States (Arizona, Colorado, Idaho, Montana, New Mexico, North Dakota, South Dakota, Wyoming, Utah)

State of \_\_\_\_\_  
County of \_\_\_\_\_

} INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public \_\_\_\_\_

State of \_\_\_\_\_  
County of \_\_\_\_\_

} INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purpose therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public \_\_\_\_\_

State of Texas  
County of Dallas

} CORPORATE

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be \_\_\_\_\_ of Fina Oil & Chemical Company, a corporation, and acknowledged to me that he or she executed the same as the act of said corporation for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19 95

My Commission Expires: \_\_\_\_\_

Notary Public \_\_\_\_\_

**RECORDING INFORMATION**

State of \_\_\_\_\_  
County of \_\_\_\_\_

}

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_, at \_\_\_\_\_ o'clock, \_\_\_\_\_ M., and duly recorded in Book \_\_\_\_\_ Page \_\_\_\_\_ of the \_\_\_\_\_ records of this office.

By \_\_\_\_\_ (Deputy)

OCT-26-95 THU 13:09 W.B. OSBORN O&G

P. 01

**W. B. OSBORN**  
OIL AND GAS OPERATIONS

MAILING ADDRESS:  
P.O. BOX 8C  
SAN ANTONIO, TEXAS 78217-0190  
OFFICE: (210) 826-8654

October 26, 1995

SHIPPING ADDRESS:  
1250 N.E. LOOP 410, SUITE 600  
SAN ANTONIO, TEXAS 78208-1535  
FAX: (210) 826-7318

Ms. Leslyn M. Swierc  
Meridian Oil Inc.  
P.O. Box 51810  
Midland, TX 79710-1810

RE: Your "New" Offer to Lease  
E/2 Section 30, T10S-R38E  
Lea County, New Mexico  
K.C. BATES #0093-NM-666

Dear Leslyn:

It is with surprise that I acknowledge receipt of your letter dated October 25, 1995, received by fax today. Rather than contact you directly at (915) 688-6928, I thought I'd fax back, since you're faxing me.

Yes, **SURPRISED**, that at this late hour you'd make a counter-offer after a month of silence subsequent to ours (save & except a written pooling notice). **SURPRISED**, that the royalty offer has increased, when only a month ago there was absolutely, matter-of-factly, no way you could economically offer more than a 1/5th? Was it the price?? No, it couldn't be. Oil is \$1.37/bbl lower than a month ago. It must be that you adjusted something in your engineering model to make a lower NRI economical now. (Fancy that.) And finally, **SURPRISED**, that you expect we'd jump through hoops to give Meridian exactly what it wants, and moreover, rush to close the deal just before the hearing.

**NO, YOUR OFFER IS UNACCEPTABLE!** We have spent more time, energy and money on what could have been a simple deal, to now believe that the pooling process should proceed as you have planned. And that's a shame, because had you approached these negotiations with an open mind and the respect due any professional in this industry, we would have closed an amicable deal long ago.

Sincerely,

W.B. OSBORN OIL & GAS OPERATIONS

  
Rex Bourland  
Land Manager

RB/rrb

P.S. That goes for your subsequent counter, counter-offer of 11:00 a.m., too.

## MERIDIAN OIL

October 25, 1995 (11:30 a.m.)

Mr. Rex Bourland  
W. B. Osborn Oil & Gas Operations  
P. O. Box 8C  
San Antonio, Texas 78217

Re: East Echols Prospect  
Offer to Lease  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico

Dear Mr. Bourland:

Reference is made to your letter of September 22, 1995, wherein you stated that W. B. Osborn, Jr., Individually and as Trustee of the William B. Osborn, Jr. Trust ("Osborn") would support Meridian's activity concerning the drilling of the Aunt Lula "30" #1 in Section 30, T-10-S, R-38-E, Lea County, New Mexico, however "you would be unable to do so under the terms" which Meridian proposed. You provided a copy of an oil and gas lease dated July 1, 1995, but executed and acknowledged on September 22, 1995, which reserved unto Osborn a 1/4th royalty under the captioned land.

Realizing that this lease is currently in effect, Meridian would like to make the following proposal in lieu of compulsory pooling:

- W. B. Osborn Oil and Gas Operations would release the oil and gas lease dated July 1, 1995 to W. B. Osborn, Jr., Individually and as Trustee of the William B. Osborn, Jr. Trust.
- Meridian would pay to Osborn \$200/net acre for a mutually-acceptable oil and gas lease covering all the captioned acreage, providing for a one-year primary term and a 180-day continuous development provision.
- Osborn would reserve unto itself a 22.5% royalty interest
- Closing would occur on or before November 1, 1995.

Please consider our proposal and contact me directly at (915) 688-6928 to discuss further details. Your prompt attention is greatly appreciated.

Very truly yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs

cc: Don Davis

Tom Kellahin

P.O. Box 51810, Midland, Texas 79710-1810, Telephone 915-688-6800  
3300 N. "A" St., Bldg. 6, 79705-5406



MERIDIAN OIL INC.  
P. O. BOX 51810  
MIDLAND, TEXAS 79710-1810  
(915) 688-6800  
FAX NO. (915) 688-6010

Date: 10-26-95

Fax No. Sending To: (210) 826-7318

To: Res Bourland

From: Leslyn Swierc

Telephone No.: (915) 688-6928

TOTAL Number of Pages Including Cover Page 2

Special Instructions: Please disregard the fax received  
at 9:02 A.M.

**MERIDIAN OIL**  
October 25, 1995

Mr. Rex Bourland  
W. B. Osborn Oil & Gas Operations  
P. O. Box 8C  
San Antonio, Texas 78217

Re: East Echols Prospect  
Offer to Lease  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico

Dear Mr. Bourland:

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Very truly yours,

MERIDIAN OIL INC.

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs

cc: Don Davis  
Tom Kellahin

**W. B. OSBORN**  
OIL AND GAS OPERATIONS

MAILING ADDRESS:

P.O. BOX 8C  
SAN ANTONIO, TEXAS 78217-8199

OFFICE: (210) 826-8654

Ms. Leslyn M. Swierc  
Meridian oil  
P.O. Box 51810  
Midland, TX 79710-1810

SHIPPING ADDRESS:

1250 N.E. LOOP 410, SUITE 600  
SAN ANTONIO, TEXAS 78209-1535

FAX: (210) 826-7318

September 22, 1995

RE: Your Well Proposal  
E/2 Sec. 30, T10S-R38W  
Lea County, New Mexico  
K.C. Bates #0093-NM-666

Dear Leslyn:

In response to your letter of September 11, 1995, please be advised that, while W.B. Osborn Oil & Gas Operations (WBO) appreciates very much the opportunity to consider participating in your Aunt Lula 30 #1, we must decline at this time in that this test is not compatible with our 1995 exploration program or budget.

Referencing your request for a "farmin" in lieu of joining, we do want to support your activity, however, will be unable to do so under the terms you propose. Enclosed herewith you'll find a copy of an Oil And Gas Lease under which the mineral interest of Mr. Osborn is subject, and will note that it provides for a one-quarter (1/4) royalty, making it impossible for WBO to deliver an 80% NRI.

As an alternative, WBO proposes a farmout of the leasehold interest covering the proration unit to be dedicated to the 9900' test providing for, among others, the following basic terms: A \$100 per net acre consideration, 90 days to spud and production-to-earn a 75% NRI leasehold interest limited in depth to 100' below the deepest producing perforations.

If these terms are acceptable, please advise, and we will prepare a formal agreement for your execution. Your failure to accept, in writing, within 10 days of your receipt of this letter, will render this offer null and void. Should you have any questions regarding this matter, don't hesitate to call.

Very Truly Yours,

W.B. OSBORN OIL & GAS OPERATIONS



Rex Bourland  
Land Manager

RB/rrb  
Enclosure



COPY

OIL AND GAS LEASE

This Agreement, made and entered into this 1st day of July, 1995, which shall be the effective date of this agreement for all purposes, by and between W.B. Osborn, Jr., Individually and as Trustee of the William B. Osborn, Jr. Trust hereinafter called "Lessor", whose mailing address is 1250 N.E. Loop 410, Suite 600, San Antonio, TX 78209-1535 and W.B. Osborn Oil & Gas Operations, hereinafter called "Lessee", whose mailing address is P.O. Box 8C, San Antonio, TX 78217-8199.

WITNESSETH:

I

Lessor, in consideration of the sum of ten and No/100---- Dollars (\$ 10.00 ) in hand paid, and other good and valuable considerations, of the royalties herein provided, and of the other agreements of Lessee herein contained, does hereby GRANT, LEASE and LET, subject to the terms and conditions hereinafter set forth, exclusively unto Lessee and Lessee's successors and assigns, for the sole and only purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, associated liquid and gaseous hydrocarbons, and other minerals contemporaneously produced with said oil and gas, including, but not limited to, sulphur; laying pipelines and building tanks, communication lines and other structures thereon and maintaining such works, to produce, save, take care of, treat, store, transport and own such products obtained hereunder; and, for constructing roads and bridges necessary for operations hereunder, the following described land in Lea County, New Mexico, and is described as follows, to-wit:

E/2 Section 30, T10S-R38E

II

Lessor expressly reserves the full enjoyment and use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted and to the extent granted to Lessee hereby. Without limiting the foregoing, Lessor expressly reserves the right to explore for by any method, to drill, operate, produce, treat, store and transport any and all oil and gas and associated liquid and gaseous hydrocarbons as to depths not leased or subsequently forfeited hereunder; to explore and prospect for by any method, to develop and mine, process, mill, treat, remove, handle and transport all minerals, ores, metals and substances of every nature and character from the land covered hereby other than substances leased hereunder; to hunt, trap, farm, graze, reclaim, improve and otherwise use any and all portions of the Lease Premises; to construct canals, roads, ditches, ponds, levees, dams, fences, buildings, tanks, pipelines, power stations, communication lines and other facilities, structures and improvements; to receive, store and transport Lessor's royalty production hereunder; to gauge or to witness the gauging of all production attributable to the Lease Premises; and, to use any canal or road constructed by Lessee hereunder. All of the rights retained by Lessor and the rights granted to Lessee herein shall be exercised in such manner that neither shall unduly interfere with the operations of the other upon the Lease Premises.

III

Subject to the other provisions hereof, this lease shall be for a term of six (6) months from the date hereof (hereinafter called "primary term"), and as long thereafter as oil, gas, or associated liquid or gaseous hydrocarbons is produced hereunder in paying quantities or any operation is conducted, payment is made, or condition exists which continues this lease in force, according to its terms.

IV

A. If, at the expiration of the primary term oil, gas or associated liquid or gaseous hydrocarbons is not being produced hereunder, but on or before that date (or on or before the end of sixty (60) days following cessation of production or abandonment of a well, if a well be abandoned or production should cease within sixty (60) days prior to the expiration of the primary term) Lessee commences actual drilling or actual reworking operations on the Lease Premises in an effort to make the premises produce any such leased substances, or production is commenced or resumed during such sixty (60) day period, then this lease shall continue in force so long as such operations are being conducted in good faith without lapse of more than sixty (60) consecutive days between cessation of operations and their re-commencement whether on the same well or on different wells successively or so long as the production so commenced or resumed is obtained in paying quantities. If, at any time or times after the expiration of the primary term, production hereunder should for any reason cease or terminate, Lessee shall have the right at any time within sixty (60) days from cessation of production to resume production or actual drilling or actual reworking operations in an effort to make the Lease Premises again produce any of such leased substances, in which event this lease shall remain in force so long as such operations are continued as above provided. If as a result of any such operations, oil, gas or associated liquid or gaseous hydrocarbons be found and produced or the production of any of them be restored, this lease shall continue in force so long as any of them is produced hereunder in paying quantities or this lease is otherwise being maintained as herein provided.

B. Whenever in this lease it is provided that Lessee shall begin the drilling of a well, it is the intent of the parties that a derrick and the necessary operating machinery, capable of drilling such a well to the applicable depth, be fully set up and equipped and actual downhole operations be commenced within the time specified. As used herein "reworking" or "reworked" shall mean perforating, cleaning out, acidizing, reconditioning, fracturing, attempted recompletion in or plugging back to a separate interval of an existing well, or any other good faith operations for the purpose of restoring or increasing production which does not involve the drilling of additional hole. Actual drilling operations shall be deemed to terminate on the last day actual operations are conducted in a diligent and good faith manner for the purpose of attempting to discover leased substances or to complete a well as a producer, including the installation of equipment, to and including, but not beyond, the wellhead connections, in such a well being drilled or deepened. Reworking operations shall be deemed to terminate on the last day such operations are conducted in a diligent and good faith manner for the purpose of establishing, increasing or restoring production.

V

The obligations set forth in this Article are applicable only with respect to wells drilled on property which is not part of either the Lease Premises or a pooled unit containing all or any portion of the Lease Premises, which property is hereinafter described in this Article as "adjoining property". Lessee agrees to drill any and all wells necessary to protect the Lease Premises from drainage of oil, gas or associated liquid or gaseous hydrocarbons by a well or wells on adjoining property or to take any other steps reasonable necessary to protect the Lease Premises against such drainage. If Lessee is the Operator of or has a working interest in any well on adjoining property, Lessee shall be obligated to begin actual drilling operations for a well on the Lease Premises or to take such other steps as may be reasonably necessary to protect the Lease Premises within sixty (60) days from the time Lessee knows or reasonably should know that drainage is occurring. In all other cases Lessee shall be obligated to begin such operations or take such other steps only within sixty (60) days after receipt of written notice from Lessor.

VI

Unless Lessor elects to take in kind all or any part of the portion due Lessor as royalty on leased substances provided and saved hereunder, which option is expressly reserved by Lessor and which option is exercisable by written notice to Lessee at any time and from time to time while this lease is in effect and either prior to or after acceptance by Lessor of royalties on prior production, it being understood that nothing contained herein shall be interpreted as limiting or waiving said option, Lessee shall pay or deliver to Lessor the following:

(a) As a royalty on oil and all hydrocarbons produced and saved in a liquid form at the mouth of the well, including, without limitation, condensate, distillate and other liquid hydrocarbons removed from oil or gas run through a separator or other equipment as hereinafter provided, one-quarter (1/4) part of the gross production or the market value thereof, at the option of the Lessor, such value to be determined by 1) the highest posted price, plus premium, if any, offered for oil, condensate, distillate or other liquid hydrocarbons, respectively, of a like grade and quality and quantity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is greater. Lessee agrees that before any gas produced from the Lease Premises is sold, used or processed in a plant, it will be run free of cost to Lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon

written consent of Lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by Lessor.

(b) As a royalty on any gas and all hydrocarbons and gaseous substances not included in subparagraph (a) above produced and saved from the Lease Premises (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products), one-quarter (1/4) part of the gross production or the market value thereof, at the option of the Lessor, such value to be based on the highest market price paid or offered for gas of like kind and quality and quantity in the general area where and when produced, or the gross price paid or offered to the producer, whichever is the greater;

(c) As a royalty on any gas, including casinghead gas, processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons, one-quarter (1/4) part of the residue gas and the liquid hydrocarbons extracted or, at the option of the Lessor, the value thereof as hereinafter determined. The value of such products (or Lessee's share thereof) shall be the price or prices received by Lessee if sold under a contract or contracts prudently negotiated under the facts and circumstances existing at the time of execution with an independent party or parties. If such products are sold other than to an independent party under a prudently negotiated contract, the value of the products shall be their fair market value at the plant at the time sold. The value of any such products (or Lessee's share thereof) not sold under contract but taken by Lessee for its own use shall be the fair market value at the plant for such products, or if no products are being sold at the plant, the average of the market values for like products of the same grade and quality and quantity in the general area when processed. When the cost of processing is not met by retention by the processor of a share of the products or in any other case in which Lessee is to deduct from the value of such products the cost of processing, the charges shall be determined as follows: (i) if the gas is processed by an independent party or parties under a contract prudently negotiated under the facts and circumstances existing at the time of execution, the charges deducted shall be those provided in such contract; and, (ii) in all other cases, including processing by those other than an independent party or parties and those in which Lessee itself or in conjunction with others owns the plant, the charges shall be determined by contract between Lessee and Lessor, provided, however, in the absence of such a contract, the charges to be deducted shall include only the proportionate part of: (1) the direct cost of operating and maintaining the plant, computed annually, including cost of labor and on-site supervision, materials, supplies and ordinary repairs; (2) plant fuel and shrinkage; (3) depreciation of the plant computed over the life or lives of the field or fields served by the plant, or by such other method as is agreed upon by Lessor and Lessee; and (4) ad valorem taxes. In all of the cases provided for in this subparagraph (c), Lessor shall be entitled to the royalty for gas provided in subparagraph (b) of this Article based on the value of Lessee's share of the residue gas sold or otherwise disposed of after processing.

(d) As a royalty on sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead", "dry" or any other gas, by fractionating, burning or any other processing, one-quarter (1/4) part of the gross production of such products, or the market value thereof, at the option of Lessor, such value to be based on the highest market price paid or offered for each product in the general area where produced and during the same month in which produced.

(e) As royalty on any substances not included in subparagraph (a), (b), (c) or (d) above produced and saved from the Lease Premises, one-quarter (1/4) part of the gross production of such substances or the market value thereof, at the option of Lessor, such value to be based on the highest market price paid or offered for each such substance in the general area where produced and during the same month in which produced.

(f) Lessee agrees that all royalties paid to Lessor hereunder in value, not kind, shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, and otherwise making the oil, gas and other products produced hereunder ready for sale or use and transporting production on the lease or to a commingled facility in the field.

(g) If Lessor requires that payment of any royalties accruing to it hereunder be made in kind, all such royalty production taken in kind shall be without deduction for the cost of (1) producing, gathering, or transporting production on the lease or to a commingled facility in the field; (2) handling, treating, separating, dehydrating or processing production by ordinary lease equipment to make it marketable; or (3) storage on the lease or in the field if the holder of the lease erects storage tanks for its own production hereunder; but, any royalty production so taken in kind shall bear and pay its own costs of processing through a plant, transportation outside the lease or, if applicable, beyond any commingled field facility outside the lease, compression for insertion into a pipeline, storage tanks at the well if Lessee does not erect tanks on the lease or in the field for its own production hereunder, and otherwise making the oil, gas and other products produced hereunder ready for sale or use.

(h) On or before the 25th day of each month, Lessee shall mail or deliver to Lessor an itemized statements showing the total production of each leased substance included in subparagraphs (a), (d) and (e) above during the preceding calendar month, the royalties payable thereon, the data used to compute such royalties, and an explanation of the manner in which such royalties were determined and computed. At the same time, Lessee shall remit to Lessor the royalties due hereunder on such production during such preceding month to the extent that Lessor has not elected to take such production in kind.

(i) On or before the 25th day of each month, Lessee shall mail or deliver to Lessor an itemized statement showing the total production of each leased substance included in subparagraphs (b) and (c) above during the second preceding calendar month, the royalties payable thereon, the data used to compute such royalties, and an explanation of the manner in which such royalties were determined and computed. At the same time, Lessee shall remit to Lessor the royalties due hereunder on such production during such second preceding month to the extent that Lessor has not elected to take such production in kind.

## VII

A. Lessee agrees that it will at all times indemnify and save and keep Lessor harmless from and against any and all losses, actions, damages, claims, expenses, and injuries to or deaths of persons that may be asserted against Lessor for or on account of any operations or activity conducted by Lessee, its agents, servants, contractors or invitees, or for the benefit of Lessee on the Lease Premises.

B. Lessee shall properly plug all wells drilled on the Lease Premises in compliance with the statutes, rules, regulations, requirements and orders of any governmental agency having jurisdiction thereof and does hereby indemnify, defend and hold Lessor harmless against any expense, claim or cause of action brought against Lessor arising from Lessee's failure to properly plug any well drilled hereunder.

C. Following the completion of each operation hereunder, Lessee shall promptly remove all drilling mud and fill and level all pits and excavations and restore the surface of the land as nearly as possible to its former condition.

D. When required by Lessor, Lessee will bury all pipelines below the bottoms of existing ditches, bayous, canals and other water bottoms and to a sufficient depth, or otherwise alter or modify same, so as not to interfere with existing cultivation, trapping, hunting or grazing operations on the land covered hereby or existing structures, facilities or improvements thereon.

E. No well shall be drilled nearer than two hundred (200) feet to any structure now on the land covered hereby. In the event of production hereunder, Lessee shall isolate all facilities relating to said production from activities of any and all surface owners or surface tenants of the land covered hereby.

F. Lessee shall notify Lessor five (5) or more days before Lessee shall fell or remove any standing trees or destroy any felled trees or brush piles or natural debris on or from the land covered hereby specifying the date, time and place of such felling or destruction.

G. When required by Lessor, Lessee shall construct and install such steel "cattle guards" on roads and bridges constructed by Lessee and shall fence stump holes or other openings as may be necessary to safeguard any livestock or wild game on the land covered hereby. Lessee binds itself that due consideration will be given by Lessee to bog holes, the escape of noxious vapors and substances, and other hazards that might conceivably cause the death or disability of any livestock, wild game or aquatic wildlife on the land covered hereby.

H. Lessee shall pay the surface owner or surface tenant of the land covered hereby, as appropriate, for damages to timber, crops, pasture, roads, livestock, water supply, building, machinery or other tangible items of any nature cause in whole or in part by Lessee's operations. Lessee also shall secure from any and all surface owners and surface tenants of the land covered hereby a satisfactory release from damages and promptly furnish a copy to Lessor.

I. Lessee agrees to develop the Lease Premises as a prudent operator would under the same or similar circumstances.

J. Lessee shall take such cores and sidewall samples at such intervals as are indicated by good oil field practices or as specified by Lessor, and shall maintain same in good condition for examination by representatives of Lessor. All showings of oil or gas which, in Lessor's opinion, justify testing shall be tested in a manner and to an extent consistent with good operating practice to determine the producing possibilities thereof to the satisfaction of Lessor.

K. Lessee shall have the right to free use of all water on the Lease Premises to which Lessor may have title for all operations hereunder.

I. Lessee shall have the right at any time until six (6) months after the expiration of this lease to remove all property and fixtures of Lessee on the Lease Premises.

#### VIII

In the event that any well on the Lease Premises is capable of producing gas or gaseous substances in paying quantities, but Lessee is unable to produce such gas (or, if previously produced, Lessee is unable to continue to produce the same) because of a lack of a reasonable market or of marketing facilities or because of governmental restrictions, then Lessee's rights may be maintained in the absence of actual gas production from such a well by the payment to Lessor of shut-in gas well payments at the rate of Five Hundred (\$500.00) Dollars per each such well per year, the first payment to be due within ninety (90) days after the shut-in of such a well, or the cessation of production, and shall extend Lessee's rights for one year from the date of shut-in or cessation of production; and it shall be considered that gas has been produced in paying quantities from said well from the date of the shut-in gas well payment and during such period covered by said payment. Thereafter, Lessee's rights may be continued from year to year by making yearly payments in the amount stated above on or before the anniversary of the date the well was shut-in; provided, however, Lessee's right to maintain this lease solely by virtue of the shut-in gas well payment provided for herein is hereby limited to a period of no longer than (2) consecutive years (or for lesser periods which aggregate two (2) years in all) after the end of the primary term of this lease. Such payment shall not affect the obligation of Lessee to reasonably develop the Lease Premises or to prevent the drainage thereof or to use reasonable efforts to find a market for said gas or to procure from the appropriate governmental agencies the necessary permits and authority to produce and sell the gas from each such well and to commence or resume the marketing of same when a market is available.

#### IX

The performance of any of the obligations of Lessee hereunder shall, notwithstanding anything contained in this lease to the contrary, be suspended while and so long as the Lessee is prevented from complying with such obligations in part or in whole by strikes, lockouts, acts of God, action of the elements, accidents, laws, rules and regulations of any federal, state, county, municipal, or other governmental agency, zoning or land use ordinances of any governmental agency, acts or requests of any governmental officer or agent purporting to act under authority, delays in transportation, inability to obtain necessary materials in the open market, inadequate facilities for the transportation of materials or for the disposition of production, or other matters beyond the reasonable control of the Lessee whether similar to the matters herein specifically enumerated or not.

#### X

This lease is granted and accepted without any warranties, express or implied, of title or merchantability or fitness for any particular purpose or otherwise, and without any recourse against Lessor whatsoever, it being expressly agreed that Lessor shall not be required to return any consideration paid herefor or its value or any payments received hereunder or be otherwise responsible to Lessee therefor; provided, however, it is agreed that if Lessor has leased an interest hereunder in any tract of land covered by this lease less than the entire mineral estate, then the royalties to be paid Lessor applicable to such a tract shall be reduced proportionately. Lessee will not lease from any person claiming adversely to Lessor without Lessor's prior written consent, nor undertake title curative work without first consulting Lessor. Title curative work shall be such as to inure to the benefit of Lessor's title and Lessee shall promptly furnish to Lessor copies of all title opinions, papers, materials, and curative work secured by Lessee.

#### XI

Lessee may at any time or times pool and consolidate this lease, in whole or in part, or as to any stratum or strata, with adjacent lands and leases, so as to constitute a unit or units not substantially exceeding the size required for the most efficient and economical location and spacing of wells in the field or pool, or the size (if any) approved by State or Federal authorities, by delivering to Lessor an instrument so declaring. Drilling or reworking operations upon, or production from any part of any such unit shall be treated, for all purposes hereunder, as such operations upon or such production from this lease. Upon production from any part of any such unit, Lessor shall be entitled to royalties calculated as follows: there shall be allocated to the portion of this lease included in such unit a fractional part of such production, in the ratio that the number of acres of this lease included in such unit bears to the total number of acres of all lands and leases included in such unit, and Lessor shall be entitled to the royalties in this lease provided, on such fractional part of such production, and no more. Provided, that if State or Federal authorities shall prescribe a different method of allocation, the method so prescribed shall prevail. This provision is not applicable to field wide unitization, which is expressly prohibited without written consent of Lessor.

#### XII

Lessor shall at its sole cost, risk, and expense have unrestricted access to the Lease Premises and any units in which they may be included for the purpose of witnessing all operations thereon and of measuring and gauging, or witnessing the measuring and gauging, of the production obtained therefrom. Lessee shall furnish to Lessor at the offices and addresses set forth, free of cost to Lessor and currently as available, the following information and data as to all wells drilled on the lands covered hereby or on any units in which they may be included, to-wit: To Lessor, P.O. Box 8C, San Antonio, Texas 78217, Attn: P.K. Roberts, Phone: 210/826-8654 Fax: 210/826-7118

#### No. of Copies

(a)	Daily Drilling Report (faxed)	1
(b)	Core Description and Analysis	1
(c)	Forms to Government Agencies	1
(d)	Electrical, Sonic, Radioactive, and other Well Survey Logs	1
(e)	Survey Plat of Location	1
(f)	Mud Logger, if used	1
(g)	Drilling Time Record or Geolograph	1

#### XIII

If Lessee elects to abandon any well located on the Lease Premises, Lessee shall so notify Lessor and Lessor, if it so desires, shall have the right to take over the operation of such well for purposes of oil and gas operations as to depths or substances not leased hereunder or for any other purpose that does not conflict with the rights granted Lessee hereunder; but, in order to exercise said right, Lessor must notify Lessee of its intention to take over the operation of such well within twenty-four (24) hours (Saturday, Sunday and legal holidays excepted) after (i) receipt of notice from Lessee of its intention to abandon and (ii) the receipt of a field print of all electric, sonic, radioactive and other survey logs run in the well, whichever is the later time. If Lessor exercises such right of take over, Lessor may also take over any salvable materials or equipment at the well site and in the well and reimburse Lessee for the reasonable value of the salvable materials or equipment taken over, less the estimated cost of salvaging. Lessor shall assume all liabilities in connection with the operation of any such well occurring after Lessor takes over such operation, including the obligation to abandon the well and restore the surface.

#### XIV

Lessee may, at any time, execute and deliver to Lessor a release or releases of any portion or portions of the Lease Premises and be relieved of all obligations thereafter accruing under this lease as to the portion or portions so released. All partial releases, however, shall be made so that, insofar as possible, the property not released shall be a compact body in one single block, as nearly contiguous as the Lease Premises will permit, and shall not be divided into any pattern which would prevent the orderly development thereof. All releases shall be made free of encumbrances created by or under Lessee.

#### XV

At the expiration of the primary term hereof, Lessee, its successors and assigns, shall be entitled to retain only those producing proration units, a proration unit being defined as the amount of acreage allocated to a well by the governmental authority having jurisdiction in order that said well can produce a full allowable, upon which a well has been completed and is then producing oil and/or gas in commercial quantities. All other acreage covered by this lease and rights below 100' below the deepest depth drilled in each retained proration unit shall be forfeited and all rights thereto shall revert to Lessor. It being understood, however, that Lessee may maintain its rights to the entire leased acreage after the end of the primary term whether or not Lessee obtains or has obtained the production of oil and/or gas in paying quantities only by conducting continuous drilling operations on the leased premises. Continuous drilling operations is hereby defined as drilling operations with not more than 180 days between the completion or abandonment of a well on the leased premises and the commencement of operations for the drilling of another well on the leased premises. If Lessee has

completed a well on the leased premises, whether as a dry hole or a commercial producer, within 180 days prior to the end of the primary term Lessee shall have 180 days after the date of such completion within which to commence additional operations in order to maintain its rights. If Lessee has not completed a well on the leased premises, whether as a dry hole or a producer, within 180 days prior to the end of the primary term, then Lessee, in order to maintain its rights, must commence operations for the drilling of a well on the leased premises on or before the end of the primary term. At the expiration of the primary term or after cessation of continuous drilling operations, whichever is the later event, Lessee agrees to immediately place of record and deliver to Lessor a recorded Release of Oil and Gas Lease covering all acreage not dedicated to a producing proration unit, as defined above, and all rights below 100' below the deepest depth drilled during the term hereof in each retained proration unit. For the purposes of this provision, "the leased premises" shall be deemed to mean the leased premises or "lands pooled therewith" as provided for in provision XI hereof.

XVI

This lease is expressly made subject to any and all easements, servitudes, surface leases, rights-of-way and other contracts of Lessor affecting the surface of said land, and if any instrument creating such an easement, servitude, surface lease, right-of-way or other contract of Lessor affecting the surface of said land contains surface restrictions in excess of or in addition to the restrictions on Lessee's operations contained in Article VII hereof, Lessee agrees to comply with such excessive or additional restrictions.

XVII

It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

XVIII

The provisions of this lease shall extend to and bind the successors and assigns of the parties hereto and shall constitute covenants running with the land hereby leased, provided, however, Lessee shall not assign, sublease nor otherwise transfer this lease or any interest therein, except as to any transfer resulting from a corporate merger, consolidation or reorganization, without Lessor's prior written consent, which consent shall not be arbitrarily withheld; and no change or division of ownership of the Lease Premises or of the royalties herein reserved shall operate to enlarge the obligations or diminish the rights of Lessee

IN WITNESS WHEREOF, this instrument is executed by Lessor and accepted by Lessee as of the date first above written.

LESSOR:

*W.B. Osborn, Jr.*  
W.B. Osborn, Jr., Individually and as  
Trustee of the William B. Osborn, Jr. Trust

LESSEE:

W.B. OSBORN OIL & GAS OPERATIONS

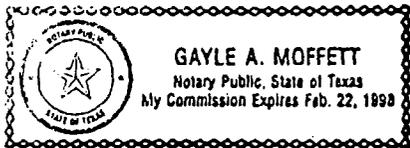
*W.B. Osborn III*  
W.B. Osborn, III, Managing Partner

ACKNOWLEDGMENTS

STATE OF TEXAS  
COUNTY OF BEXAR

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State on this day personally appeared W. B. OSBORN, JR., ~~XXX~~ INDIVIDUALLY.  
known to me to be the person whose name is subscribed to the foregoing instrument, ~~XXXXXX~~ for the purposes and consideration and in the capacity therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 22nd day of September 19 95.

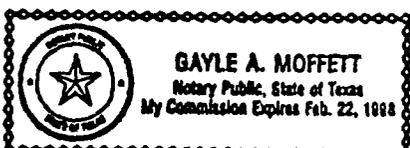


*Gayle A. Moffett*  
Notary Public in and for  
Bexar County, Texas

STATE OF TEXAS  
COUNTY OF BEXAR

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State on this day personally appeared W. B. OSBORN III for W. B. OSBORN OIL & GAS OPERATIONS  
known to me to be the person whose name is subscribed to the foregoing instrument, who acknowledged to me that he executed the same as the act and deed of the said MANAGING PARTNER for the purposes and consideration and in the capacity therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 22nd day of September 19 95.



*Gayle A. Moffett*  
Notary Public in and for  
Bexar County, Texas

Z 111 007 198

**Receipt for Certified Mail**  
 No Insurance Coverage Provided  
 Do not use for International Mail  
 (See Reverse)

PS Form 3800, March 1993

Sent to	W. B. Osborn Trust
Street and No	P. O. Box 8C
P.O. State and ZIP Code	San Antonio, Texas 78217
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	9-12-95

Your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b></p> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>	<p>I also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p>
<p>3. Article Addressed to:</p> <p>W. B. Osborn, Jr., Indv. &amp; Trustee of William B. Osborn Trust          P. O. Box 8C          San Antonio, Texas 78217</p> <p>ATTN: Rex Bourland</p> <p>5. Signature (Addressee)</p> <p>6. Signature (Agent)</p>	<p>4a. Article Number</p> <p>Z 111 007 198</p> <p>4b. Service Type</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured</p> <p><input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD</p> <p><input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p> <p>7. Date of Delivery</p> <p>9/15/95</p> <p>8. Addressee's Address (Only if requested and fee is paid)</p>

PS Form 3811, December 1991 U.S. GPO: 1993-352-714

**DOMESTIC RETURN RECEIPT**

Thank you for using Return Receipt Service.

## MERIDIAN OIL

September 11, 1995

Mr. Rex Bourland  
W. B. Osborn, Jr., Individually and  
Trustee of the William B. Osborn, Jr. Trust  
P. O. Box 8C  
San Antonio, Texas 78217

Re: Well Proposal - East Echols Prospect  
Aunt Lula 30 #1  
1980' FSL & 660' FEL Section 30  
T-10-S, R-38-E  
Lea County, New Mexico

Dear Mr. Bourland:

Meridian Oil Inc. ("Meridian") hereby proposes the drilling of the Aunt Lula "30" #1 (the "Well"), a 9,900' Wolfcamp test located in the E/2 Section 30, T-10-S, R-38-E, Lea County, New Mexico, to be spud in October, 1995. Our records indicate that W. B. Osborn, Jr., individually, owns a 4/144th mineral interest and the William B. Osborn, Jr. Trust (collectively called "Osborns") owns a 3/144ths mineral interest in said acreage.

Enclosed for your review and execution is an AFE in the amount of \$820,000 to drill, complete and equip the Well. If you elect to participate in the drilling of the Well, please execute and return the AFE to the undersigned by October 1, 1995. Upon Meridian's receipt of said AFE, Meridian and the Osborns will enter into a mutually-acceptable joint Operating Agreement using AAPL form 610 (1982) Joint Operating Agreement which (a) designates Meridian Oil Inc. as operator, (b) provides in Article VI.B.2. for recoupment of 100%/300%/300% of all well costs through the wellhead in the event of operations by less than all parties, (c) omits the provision for the preferential right to purchase, and (d) provides in Article VII.D.1. for a casingpoint election. An Exhibit "C" (Accounting Procedure), Exhibit "D" (Insurance Requirements) and Exhibit "E" (Gas Balancing Agreement) will also be forwarded for your review.

If, however, the Osborns should elect not to participate in the drilling of the Well, Meridian respectfully requests a farmin of the Osborns' interests in the E/2 Section 30, said farmin shall (i) deliver to Meridian an 80% net revenue interest, (ii) require the Well to be spud on or before November 1, 1995, and (iii) provide for a 180-day continuous development.

Mr. Rex Bourland  
September 11, 1995  
Page 2

As this well is a wildcat in the Tatum Basin, it is essential that Meridian be delivered no less than an 80% net revenue interest or the drilling of the Well becomes uneconomic. In the event Meridian and the Osborns are unable to reach mutually-acceptable farmout terms to provide for the drilling of the Well by October 1, 1995, please be advised that this proposal will be scheduled for a compulsory pooling hearing to be held on November 2, 1995.

I will be happy to discuss any issues or questions you may have with respect to this proposal. As time is of the essence, I will be available to prepare agreements, if necessary, to expedite this process. You may reach me by phone at (915) 688-6928 or by fax at (915) 688-6010.

Thank you very much for your response.

Very truly yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs

Z III 002 560



**Receipt for Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

PS Form 3800, March 1993

Sent to	Wm. B. Osborne Jr.	
Street No.	1796 S	
Post Office Code	Houston 78286	
Postage	\$	
Certified Fee		
Special Delivery Fee		
Restricted Delivery Fee		
Return Receipt Showing to Whom & Date Delivered		
Return Receipt Showing to Whom, Date, and Addressee's Address		
TOTAL Postage & Fees	\$	
Postmark or Date	7/5/95	

Is your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b></p> <ul style="list-style-type: none"> <li>Complete items 1 and/or 2 for additional services.</li> <li>Complete items 3, and 4a &amp; b.</li> <li>Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>	<p>I also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p>
<p>3. Article Addressed to:</p> <p>Wm B. Osborne, Jr. P. O. Box 17968 Houston, Texas 78286</p>	<p>4a. Article Number Z III 002 560</p>
<p>4b. Service Type</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured</p> <p><input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD</p> <p><input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p>	<p>7. Date of Delivery 7/7/95</p>
<p>5. Signature (Addressee)</p> <p><i>Wm B Osborne Jr</i></p>	<p>8. Addressee's Address (Only if requested and fee is paid)</p>
<p>6. Signature (Agent)</p> <p><i>Wm B Osborne Jr</i></p>	

PS Form 3811, December 1991

U.S. GPO: 1993-352-714

DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

## MERIDIAN OIL

July 5, 1995

Mr. Wm. B. Osborne, Jr.  
P. O. Box 17968  
Houston, Texas 78286

Re: East Echols Prospect  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico  
containing 320 acres, more or less

Dear Mr. Osborne:

Meridian Oil Inc. is interested in acquiring an oil and gas lease covering the undivided 4/144ths mineral interest owned by you in the captioned acreage. The mineral interest in the captioned acreage stated herein is based upon an examination of the records of Lea County, New Mexico. Meridian is offering to acquire this lease under the following terms:

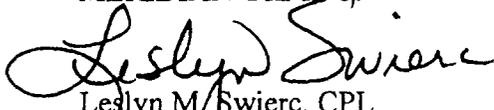
Bonus:	\$40/net acre
Royalty:	1/6th
Primary Term:	Five (5) years
Delay Rental:	\$1.00/acre

The offer detailed herein is subject to verification and delivery of clear title. If you are in agreement with these terms, please execute the enclosed Oil and Gas Lease and draft, fill in your Social Security number and depository bank on the lease and deposit the lease and draft with your bank for collection.

Thank you in advance for your consideration of this request. If you have any questions or comments regarding this proposal, please do not hesitate to call me at (915) 688-6928. I shall look forward to your reply.

Very truly yours,

MERIDIAN OIL INC.

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encls.

MOORE BUSINESS FORMS, INC.

On approval of instrument described hereon, and on approval of title to same by Drawee not later than thirty (30) calendar days after arrival of this draft at collecting bank.

**DRAFT**  
FOR COLLECTION ONLY  
NOT A CASH ITEM

NO. **T 20373**

CONTROL NO.

Prospect East Echols  
County Lea State New Mexico

July 5 19 95

PAY TO Wm. B. Osborne, Jr.

Three Hundred Fifty Five and 55/100 355.55

DOLLARS

Covering Oil and Gas Lease covering 4/144ths mineral interest in E/2 Section 30, T-10-S, R-38-E, N.M.P.M., 320 gross acres, 8.88 net acres

The drawer, payee and endorsers hereof, and the grantors of the instrument described hereon, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time specified subject alone to acceptance of payment hereof by the drawee, within said time, and without any right of the drawer, payee or endorsers hereof, or said grantors to recall or demand return of this draft prior to the expiration of the above specified time; and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration.

TO: **MERIDIAN OIL**  
Nations Bank of Texas, N.A. - Midland 522  
P.O. Box 830200  
Dallas, TX 75283-0200

AUTHORIZED SIGNATORY

MO-0018 (12/88)

Green Copy - Regional Land Department  
Pink Copy - Ft. Worth General Accounting  
Blue Copy - Ft. Worth Land Department  
White Copy - Regional Accounting

GL ACCOUNT CODING

PROPERTY NUMBER

TRANSACTION CODE

AFE

2 4 0 0 1

1

OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 10th day of July, 1995 between Wm. B. Osborne, Jr., P. O. Box 17968, Houston, Texas 78286

Meridian Oil Inc., P.O. Box 51810, Midland TX 79710-1810 as Lessor (whether one or more) and the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. Description. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants exclusively to Lessee the following described land (use attachment for long descriptions):

T-10-S, R-38-E, N.M.P.M.  
Section 30, E/2

\*Notwithstanding anything contained herein to the contrary, the royalties payable under Paragraph 4 herein shall be 1/6th instead of the stated 1/8th.

in the County of Lea State of New Mexico containing 320.0 acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered.

2. Term of Lease. This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Rental Payment. If on or before the first anniversary date hereof operations for the drilling of a well for oil or gas or other substances covered hereby have not been commenced on the leased premises or land pooled therewith, or if there then is no production in paying quantities from the leased premises or land pooled therewith, then subject to Paragraph 5 below this lease shall terminate as to both parties unless Lessee on or before that date pays to Lessor or to Lessor's credit in the

Bank at \_\_\_\_\_, or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land, the sum of \$ 320.00 as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of twelve months from said anniversary date. In like manner and upon like payments, the commencement of operations for the drilling of a well may be further deferred for one or more twelve-month periods during the primary term of this lease. All payments may be made by check or draft mailed or delivered on or before the rental payment date. If the depository bank should liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental payment hereunder, Lessee shall not be held in default for failure to make such payment unless Lessor has delivered to Lessee a proper recordable instrument naming another bank as depository agent to receive payments and Lessee has failed to make such payment within 60 days after receipt of such notice. It is agreed that the cash bonus consideration first recited above covers not only the right to defer drilling during the first year of this lease, but also all subsequent deferrals of drilling as aforesaid, along with all other rights of Lessee hereunder. If on or before any rental payment date Lessee in good faith makes an erroneous rental payment by paying the wrong person, the wrong depository, or the wrong amount, Lessee shall be unconditionally obligated to make proper rental payment for the period involved and this lease shall continue in effect as though such rental payment had been properly made, provided that proper rental payment shall be made within 30 days after receipt by Lessee of written notice of the error from Lessor, accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

\* 4. Royalty Payment. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the Lessee's oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same or nearest field for production of similar grade and gravity; (b) For gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the costs incurred by Lessee in delivering, compressing, processing or otherwise making such gas or other substance merchantable, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same or nearest field pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) If a well on the leasehold premises or lands pooled therewith is capable of producing gas (including casinghead gas) but such well is either shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor, and if this lease is not otherwise maintained in effect, such well shall nevertheless be considered as though it were producing gas in paying quantities for the purpose of maintaining this lease, whether during or after the primary term, if Lessee pays shut-in royalty of One Dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository bank designated above, on or before the next ensuing anniversary date of this lease, or within 90 days after such anniversary date, and thereafter on or before each anniversary date hereof while the well is shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor. For the purpose of calculating shut-in royalties, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

5. Operations. If Lessee drills a well incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if production in paying quantities permanently ceases from any cause, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of production, or, should the lease be within the primary term, if Lessee pays rental on or before the next rental payment date (if any) next ensuing after the expiration of said 90-day period; provided that should completion of operations on the dry hole or cessation of production occur less than 90 days before the last rental payment date, no rental payments or further operations shall be required to maintain this lease for the remainder of the primary term. If at the end of the primary term or at any time thereafter this lease is not otherwise being maintained in force, it shall nevertheless remain in force as long as Lessee, without an interruption of more than 90 consecutive days, engages in drilling, reworking or any other operations reasonably calculated to obtain or restore production on the leased premises or lands pooled therewith, and, if such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities.

6. Pooling. Lessee shall have the right but not the obligation to pool all or part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to oil or gas or both, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises; whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well shall not exceed 640 acres plus a maximum acreage tolerance of 10%, except that larger units may be formed for oil wells or gas wells to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction. To exercise its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production produced and saved which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction of the unit, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. The restrictions and requirements of this Paragraph 6 shall not apply to compulsory pooling of interest effected by operation of law or by order of any governmental authority having jurisdiction; but all other references to pooling contained in this lease shall include such compulsory pooling as well as pooling effected under this Paragraph 6.

7. Lessor's Interest. If Lessor owns less than the entire and undivided mineral estate in the above-described land or any portion thereof, the royalties, shut-in royalties and rentals herein provided shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided mineral estate in said land or portion thereof. Any interest in the production from the lands herein described to which the interest of Lessor may be subject, shall be deducted from the royalty herein reserved.

8. Ownership Changes. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder; and no change in ownership shall be binding on Lessee until 45 days after Lessee has been furnished the originals or certified copies of the documents effecting such change, or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order, which Lessor hereby agrees to execute prior to the payment of royalties hereunder. In the event of the death of any person entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to the credit of decedent or decedent's estate in the depository bank designated above. If at any time two or more persons are entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to such persons or to their credit in the depository bank, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to the interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay rental hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

9. Release of Lease. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligations to pay rentals and shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

10. **Ancillary Rights.** In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations and other facilities to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. The right of ingress and egress granted hereby shall apply to the entire leased premises notwithstanding any release or other termination affecting any portion thereof. When requested by Lessor in writing, Lessee shall bury its pipelines below plow depth. No well shall be located less than 200 feet from any house or barn now on the leased premises without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises, and to timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises during the term of this lease or within a reasonable time thereafter.

11. **Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells and the price of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented, materially impeded or delayed by such laws, rules, regulations or orders, or by inability to obtain equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, war, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, nor shall Lessee be liable for breach of any express or implied covenant, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof.

12. **Breach or Default.** No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to remedy said breach or default. This Paragraph 12 shall not apply to the matters covered in Paragraph 3 hereof.

13. **Warranty of Title.** Lessor hereby warrants and agrees to defend Lessee's title hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If it exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made and, in addition to its other rights, may reimburse itself out of any rentals, royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of rentals, royalties and shut-in royalties hereunder until Lessee has been furnished satisfactory evidence that such claim has been resolved in Lessor's favor.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

WITNESSES AND/OR ATTESTATION:

LESSOR (WHETHER ONE OR MORE)

Wm. B. Osborne, Jr.

SS#:

**ACKNOWLEDGEMENTS**

For use in Rocky Mountain States (Arizona, Colorado, Idaho, Montana, New Mexico, North Dakota, South Dakota, Wyoming, Utah)

State of Texas

County of Harris

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared Wm. B. Osborne, Jr.

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19 95

My Commission Expires: \_\_\_\_\_

Notary Public

State of \_\_\_\_\_

County of \_\_\_\_\_

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purpose therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public

State of \_\_\_\_\_

County of \_\_\_\_\_

CORPORATE

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be \_\_\_\_\_ of \_\_\_\_\_, a corporation, and acknowledged to me that he or she executed the same as the act of said corporation for the purposes

therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public

**RECORDING INFORMATION**

State of \_\_\_\_\_

County of \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, at \_\_\_\_\_ o'clock, \_\_\_\_\_ M., and duly recorded in Book \_\_\_\_\_ Page \_\_\_\_\_, of the \_\_\_\_\_ records of this office.

By \_\_\_\_\_ (Deputy)

Z III 002 559

**Receipt for Certified Mail**

**NO INSURANCE COVERAGE PROVIDED**  
Do not use for International Mail  
(See Reverse)

PS Form 3800, March 1993

Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	7/5/95

Is your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b></p> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul> <p>3. Article Addressed to: Jewell H. Storey Estate P. O. Box 17968 Houston, Texas 78286</p> <p>5. Signature (Addressee) <i>J. Storey</i></p> <p>6. Signature (Agent)</p>	<p>I also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input checked="" type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p> <p>4a. Article Number Z III 002 559</p> <p>4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p> <p>7. Date of Delivery 7/5/95</p> <p>8. Addressee's Address (Only if requested and fee is paid)</p>
---	--

PS Form 3811, December 1991 \*U.S. GPO: 1993-352-714 DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

## MERIDIAN OIL

July 5, 1995

Estate of Jewell H. Storey, Deceased  
P. O. Box 17968  
Houston, Texas 78286

Re: East Echols Prospect  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico  
containing 320 acres, more or less

Gentlemen:

Meridian Oil Inc. is interested in acquiring an oil and gas lease covering the undivided 1/16th mineral interest owned by the Estate of Jewell H. Storey in the captioned acreage. The mineral interest in the captioned acreage stated herein is based upon an examination of the records of Lea County, New Mexico. Meridian is offering to acquire this lease under the following terms:

Bonus:	\$40/net acre
Royalty:	1/6th
Primary Term:	Five (5) years
Delay Rental:	\$1.00/acre

The offer detailed herein is subject to verification and delivery of clear title. If you are in agreement with these terms, please execute the enclosed Oil and Gas Lease and draft, fill in your Social Security number and depository bank on the lease and deposit the lease and draft with your bank for collection.

Thank you in advance for your consideration of this request. If you have any questions or comments regarding this proposal, please do not hesitate to call me at (915) 688-6928. I shall look forward to your reply.

Very truly yours,

MERIDIAN OIL INC.

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encls.

MOORE BUSINESS FORMS, INC.

On approval of instrument described hereon, and on approval of title to same by Drawee not later than thirty (30) calendar days after arrival of this draft at collecting bank.

**DRAFT**  
FOR COLLECTION ONLY  
NOT A CASH ITEM

NO. T-20372

CONTROL NO. \_\_\_\_\_

Prospect East Echols  
County Lea State New Mexico  
July 5 1995

PAY TO: Estate of Jewell H. Storey, Deceased

\$ 800.00

Eight Hundred and No/100

Covering Oil and Gas Lease covering 1/16th mineral interest in E/2 Section 30, T-10-S-R-38-E

N.M.P.M., 320 gross acres, 20 net acres

The drawer, payee and endorsers hereof, and the grantors of the instrument described hereon, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time specified subject alone to acceptance of payment hereof by the drawee, within said time, and without any right of the drawer, payee or endorsers hereof, or said grantors to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration.

TO: **MERIDIAN OIL**, Drawee

NationsBank of Texas, N.A. - Midland 522  
P.O. Box 830200  
Dallas, TX 75283-0200

AUTHORIZED SIGNATORY

MO-0018 (12/88)

Green Copy - Regional Land Department  
Pink Copy - Ft. Worth General Accounting  
Blue Copy - Ft. Worth Land Department  
White Copy - Regional Accounting

GL ACCOUNT CODING

PROPERTY NUMBER

TRANSACTION CODE

AFE

2 4 0 0 1

1

OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 10th day of July, 1995 between Estate of Jewell H. Storey, Dec'd.,  
P. O. Box 17968, Houston, Texas 78286

as Lessor (whether one or more) and  
Meridian Oil Inc., P.O. Box 51810, Midland TX 79710-1810 as Lessee. All printed portions of this lease were prepared by  
the party hereinabove named as Lessee; but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. Description. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants exclusively to Lessee the following described land (use attachment for long descriptions):

T-10-S, R-38-E, N.M.P.M.  
Section 30, E/2

\*Notwithstanding anything contained herein to the contrary, the royalties payable under Paragraph 4 herein shall be 1/6th instead of the stated 1/8th.

In the County of Lea, State of New Mexico containing 320.0 acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land; and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered.

2. Term of Lease. This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Rental Payment. If on or before the first anniversary date hereof operations for the drilling of a well for oil or gas or other substances covered hereby have not been commenced on the leased premises or land pooled therewith, or if there then is no production in paying quantities from the leased premises or land pooled therewith, then subject to Paragraph 5 below this lease shall terminate as to both parties unless Lessee on or before that date pays to Lessor or to Lessor's credit in the

Bank at \_\_\_\_\_ or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land, the sum of \$ 320.00 as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of twelve months from said anniversary date. In like manner and upon like payments, the commencement of operations for the drilling of a well may be further deferred for one or more twelve-month periods during the primary term of this lease. All payments may be made by check or draft mailed or delivered on or before the rental payment date. If the depository bank should liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental payment hereunder, Lessee shall not be held in default for failure to make such payment unless Lessor has delivered to Lessee a proper recordable instrument naming another bank as depository agent to receive payments and Lessee has failed to make such payment within 60 days after receipt of such notice. It is agreed that the cash bonus consideration first recited above covers not only the right to defer drilling during the first year of this lease, but also all subsequent deferrals of drilling as aforesaid, along with all other rights of Lessee hereunder. If on or before any rental payment date Lessee in good faith makes an erroneous rental payment by paying the wrong person, the wrong depository, or the wrong amount, Lessee shall be unconditionally obligated to make proper rental payment for the period involved and this lease shall continue in effect as though such rental payment had been properly made, provided that proper rental payment shall be made within 30 days after receipt by Lessee of written notice of the error from Lessor, accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

\* 4. Royalty Payment. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the Lessee's oil purchaser's transportation facilities; provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same or nearest field for production of similar grade and gravity; (b) For gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the costs incurred by Lessee in delivering, compressing, processing or otherwise making such gas or other substance merchantable, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same or nearest field pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) If a well on the leasehold premises or lands pooled therewith is capable of producing gas (including casinghead gas) but such well is either shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor, and if this lease is not otherwise maintained in effect, such well shall nevertheless be considered as though it were producing gas in paying quantities for the purpose of maintaining this lease, whether during or after the primary term, if Lessee pays shut-in royalty of One Dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository bank designated above, on or before the next ensuing anniversary date of this lease, or within 90 days after such anniversary date, and thereafter on or before each anniversary date hereof while the well is shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor. For the purpose of calculating shut-in royalties, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

5. Operations. If Lessee drills a well incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if production in paying quantities permanently ceases from any cause, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of production, or, should the lease be within the primary term, if Lessee pays rental on or before the next rental payment date (if any) next ensuing after the expiration of said 90-day period; provided that should completion of operations on the dry hole or cessation of production occur less than 90 days before the last rental payment date, no rental payments or further operations shall be required to maintain this lease for the remainder of the primary term. If at the end of the primary term or at any time thereafter this lease is not otherwise being maintained in force, it shall nevertheless remain in force as long as Lessee, without an interruption of more than 90 consecutive days, engages in drilling, reworking or any other operations reasonably calculated to obtain or restore production on the leased premises or lands pooled therewith, and, if such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities.

6. Pooling. Lessee shall have the right but not the obligation to pool all or part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to oil or gas or both, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well shall not exceed 640 acres plus a maximum acreage tolerance of 10%, except that larger units may be formed for oil wells or gas wells to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction. To exercise its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production produced and saved which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. The restrictions and requirements of this Paragraph 6 shall not apply to compulsory pooling of interest effected by operation of law or by order of any governmental authority having jurisdiction; but all other references to pooling contained in this lease shall include such compulsory pooling as well as pooling effected under this Paragraph 6.

7. Lessor's Interest. If Lessor owns less than the entire and undivided mineral estate in the above-described land or any portion thereof, the royalties, shut-in royalties and rentals herein provided shall be paid to Lessee only in the proportion which Lessor's interest bears to the whole and undivided mineral estate in said land or portion thereof. Any interest in the production from the lands herein described to which the interest of Lessor may be subject, shall be deducted from the royalty herein reserved.

8. Ownership Changes. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder; and no change in ownership shall be binding on Lessee until 45 days after Lessee has been furnished the originals or certified copies of the documents effecting such change; or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order, which Lessor hereby agrees to execute prior to the payment of royalties hereunder. In the event of the death of any person entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to the estate of decedent or decedent's estate in the depository bank designated above; if at any time two or more persons are entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to such persons or to their credit in the depository bank, either jointly or separately in proportion to the interest which each owns; if Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to the interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay rental hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

9. Release of Lease. Lessee may at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released; if Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligations to pay rentals and shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder; and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

10. Ancillary Rights. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations and other facilities to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. The right of ingress and egress granted hereby shall apply to the entire leased premises notwithstanding any release or other termination affecting any portion thereof. When requested by Lessor in writing, Lessee shall bury its pipelines below plow depth. No well shall be located less than 200 feet from any house or barn now on the leased premises without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises, and to timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises during the term of this lease or within a reasonable time thereafter.

11. Regulation and Delay. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells and the price of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented, materially impeded or delayed by such laws, rules, regulations or orders, or by inability to obtain equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, war, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, nor shall Lessee be liable for breach of any express or implied covenant, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof.

12. Breach or Default. No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to remedy said breach or default. This Paragraph 12 shall not apply to the matters covered in Paragraph 3 hereof.

13. Warranty of Title. Lessor hereby warrants and agrees to defend Lessee's title hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises, if it exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made and, in addition to its other rights, may reimburse itself out of any rentals, royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of rentals, royalties and shut-in royalties hereunder until Lessee has been furnished satisfactory evidence that such claim has been resolved in Lessor's favor.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

WITNESSES AND/OR ATTESTATION:

LESSOR (WHETHER ONE OR MORE)  
ESTATE OF JEWELL H. STOREY

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

SS#: \_\_\_\_\_

**ACKNOWLEDGEMENTS**

For use in Rocky Mountain States (Arizona, Colorado, Idaho, Montana, New Mexico, North Dakota, South Dakota, Wyoming, Utah)

State of Texas

County of Harris

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 1995

My Commission Expires: \_\_\_\_\_

Notary Public

State of \_\_\_\_\_

County of \_\_\_\_\_

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purpose therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public

State of \_\_\_\_\_

County of \_\_\_\_\_

CORPORATE

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be \_\_\_\_\_ of \_\_\_\_\_, a corporation, and acknowledged to me that he or she executed the same as the act of said corporation for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public

**RECORDING INFORMATION**

State of \_\_\_\_\_

County of \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_, at \_\_\_\_\_ o'clock, \_\_\_\_\_ M., and duly recorded in Book \_\_\_\_\_ Page \_\_\_\_\_ of the \_\_\_\_\_ records of this office.

By \_\_\_\_\_ (Deputy)

**MERIDIAN OIL**  
October 2, 1995

Mr. Don Wadsworth  
Betty Osborn Biedenhorn Trust  
c/o Osborn Heirs Co.  
P. O. Box 17968  
San Antonio, Texas 78286

Re: East Echols Prospect  
Offer to Lease  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico

Dear Mr. Wadsworth:

Meridian Oil Inc. would like very much to consummate a trade with the Betty Osborn Biedenhorn Estate and Betty Osborn Biedenhorn Trust ("Biedenhorn") prior to November 1, 1995, to avoid compulsory pooling.

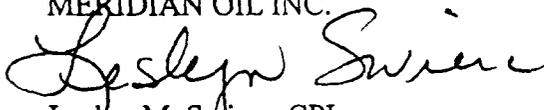
With a spirit of cooperation in mind, Meridian makes the following proposal:

- Meridian would pay to Biedenhorn's \$200/net acre for a mutually-acceptable oil and gas lease covering all the captioned acreage, providing for a one-year primary term and a 180 day continuous development provision..
- Biedenhorn's would reserve unto themselves a 22.5% royalty interest
- Closing would occur on or before November 1, 1995.

Please consider our proposal and contact me directly at (915) 688-6928 to discuss further details. Your prompt attention is greatly appreciated.

Very truly yours,

MERIDIAN OIL INC.

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs

cc: Don Davis

P.O. Box 51810, Midland, Texas 79710-1810, Telephone 915-688-6800  
3300 N. "A" St. Bldg. 6 79705-5406

**BEFORE THE**  
**OIL CONSERVATION DIVISION**  
Case No. 11417 Exhibit No. 5  
Submitted By:  
**MERIDIAN OIL, INC.**  
Hearing Date: \_\_\_\_\_

MERIDIAN OIL INC.  
P. O. BOX 51810  
MIDLAND, TEXAS 79710-1810  
(915) 688-6800  
FAX NO. (915) 688-6010

Date: 10-26

Fax No. Sending To: (210) 826-7559

To: Don Wadsworth

From: Leslye Swire

Telephone No.: (915) 688-6928

TOTAL Number of Pages Including Cover Page 2

Special Instructions: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



Z 111 007 199



### Receipt for Certified Mail

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

RS Form 3800, March 1993

Sent to	
Betty Osborn B. Trust	
Street and No.	
P. O. Box 17968	
P. O. State and ZIP Code	
San Antonio, Texas 78286	
Postage	\$
Certified Fee	\$
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

9-12-95

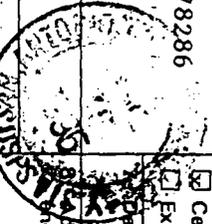
your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b></p> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>		<p>I also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p>
<p>3. Article Addressed to:</p> <p>Betty Osborn Biedenhorn Trust c/o Osborn Heirs Co. P. O. Box 17968 San Antonio, Texas 78286</p> <p>ATTN: DON WADSWORTH</p>	<p>4a. Article Number</p> <p>Z 111 007 199</p>	<p>4b. Service Type</p> <p><input type="checkbox"/> Registered</p> <p><input checked="" type="checkbox"/> Certified</p> <p><input type="checkbox"/> Express Mail</p> <p><input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured</p> <p><input type="checkbox"/> COD</p>
<p>5. Signature (Addressee)</p> <p>Signature (Agent)</p>	<p>6. Signature (Agent)</p>	<p>7. Addressee's Address (Only if requested and fee is paid)</p>

PS Form 3811, December 1991

U.S. GPO: 1993-552-714

DOMESTIC RETURN RECEIPT



Thank you for using Return Receipt Service.

210-826-0700

fax: 210-826-7559

**MERIDIAN OIL**

September 11, 1995

Mr. Don Wadsworth  
Betty Osborn Biedenhorn Estate and  
Betty Osborn Biedenhorn Trust  
c/o Osborn Heirs Co.  
P. O. Box 17968  
San Antonio, Texas 78286

Re: Well Proposal - East Echols Prospect  
Aunt Lula 30 #1  
1980' FSL & 660' FEL Section 30  
T-10-S, R-38-E  
Lea County, New Mexico

Dear Mr. Wadsworth:

Meridian Oil Inc. ("Meridian") hereby proposes the drilling of the Aunt Lula "30" #1 (the "Well"), a 9,900' Wolfcamp test located in the E/2 Section 30, T-10-S, R-38-E, Lea County, New Mexico, to be spud in October, 1995. Our records indicate that the Betty Osborn Biedenhorn Estate owns a 4/144th mineral interest and the Betty Osborn Biedenhorn Trust (collectively called "Biedenhorns") owns a 3/144th mineral interest in said acreage.

Enclosed for your review and execution is an AFE in the amount of \$820,000 to drill, complete and equip the Well. If you elect to participate in the drilling of the Well, please execute and return the AFE to the undersigned by October 1, 1995. Upon Meridian's receipt of said AFE, Meridian and the Biedenhorns will enter into a mutually-acceptable joint Operating Agreement using AAPL form 610 (1982) Joint Operating Agreement which (a) designates Meridian Oil Inc. as operator, (b) provides in Article VI.B.2. for recoupment of 100%/300%/300% of all well costs through the wellhead in the event of operations by less than all parties, (c) omits the provision for the preferential right to purchase, and (d) provides in Article VII.D.1. for a casingpoint election. An Exhibit "C" (Accounting Procedure), Exhibit "D" (Insurance Requirements) and Exhibit "E" (Gas Balancing Agreement) will also be forwarded for your review.

If, however, the Biedenhorns should elect not to participate in the drilling of the Well, Meridian respectfully requests a farmin of the Biedenhorns' interests in the E/2 Section 30, said farmin shall (i) deliver to Meridian an 80% net revenue interest, (ii) require the Well to be spud on or before November 1, 1995, and (iii) provide for a 180-day continuous development.

Mr. Don Wadsworth  
September 11, 1995  
Page 2

As this well is a wildcat in the Tatum Basin, it is essential that Meridian be delivered no less than an 80% net revenue interest or the drilling of the Well becomes uneconomic. In the event Meridian and the Biedenborns are unable to reach mutually-acceptable farmout terms to provide for the drilling of the Well by October 1, 1995, please be advised that this proposal will be scheduled for a compulsory pooling hearing to be held on November 2, 1995.

I will be happy to discuss any issues or questions you may have with respect to this proposal. As time is of the essence, I will be available to prepare agreements, if necessary, to expedite this process. You may reach me by phone at (915) 688-6928 or by fax at (915) 688-6010.

Thank you very much for your response.

Very truly yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs

Z 111 002 561



**Receipt for Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

PS Form 3800, March 1993

S. To <i>Betty Osborne</i>	
State and ZIP Code	<i>TX 78286</i>
P. O. State and ZIP Code	<i>TX 78286</i>
Postage	\$
Certified Fee	\$
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	<i>7/5/95</i>

**Is your RETURN ADDRESS completed on the reverse side?**

<p><b>SENDER:-</b></p> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>		<p>I also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p>
<p>3. Article Addressed to:</p> <p>Betty Osborne P. O. Box 17968 Houston, Texas 78286</p>	<p>4a. Article Number</p> <p>2 111 002 561</p>	
<p>5. Signature (Addressee)</p> <p><i>Betty Osborne</i></p>	<p>4b. Service Type</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured</p> <p><input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD</p> <p><input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p>	
<p>6. Signature (Agent)</p> <p><i>[Signature]</i></p>	<p>7. Date of Delivery</p> <p><i>7/7/95</i></p>	
<p>8. Addressee's Address (Only if requested and fee is paid)</p>		

PS Form 3811, December 1991 \*U.S. GPO: 1993-822-714 DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

## MERIDIAN OIL

July 5, 1995

Ms. Betty Osborne  
P. O. Box 17968  
Houston, Texas 78286

Re: East Echols Prospect  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico  
containing 320 acres, more or less

Dear Ms. Osborne:

Meridian Oil Inc. is interested in acquiring an oil and gas lease covering the undivided 4/144ths mineral interest owned by you in the captioned acreage. The mineral interest in the captioned acreage stated herein is based upon an examination of the records of Lea County, New Mexico. Meridian is offering to acquire this lease under the following terms:

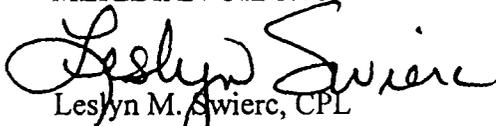
Bonus:	\$40/net acre
Royalty:	1/6th
Primary Term:	Five (5) years
Delay Rental:	\$1.00/acre

The offer detailed herein is subject to verification and delivery of clear title. If you are in agreement with these terms, please execute the enclosed Oil and Gas Lease and draft, fill in your Social Security number and depository bank on the lease and deposit the lease and draft with your bank for collection.

Thank you in advance for your consideration of this request. If you have any questions or comments regarding this proposal, please do not hesitate to call me at (915) 688-6928. I shall look forward to your reply.

Very truly yours,

MERIDIAN OIL INC.

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encls.

MOORE BUSINESS FORMS, INC.

On approval of instrument described hereon, and on approval of title to same by Drawee not later than thirty (30) calendar days after arrival of this draft at collecting bank.

**DRAFT**  
FOR COLLECTION ONLY  
NOT A CASH ITEM

NO. T 20374

CONTROL NO. \_\_\_\_\_

Prospect East Echols

County Lea

State New Mexico

PAY TO Betty Osborne

\$ 355.55

DOLLARS

Three Hundred Fifty Five and 55/100

Covering Oil and Gas Lease covering 4/144ths mineral interest in E/2 Section 30, T-10-S-38-E

N.M.P.M. 320 gross acres, 8.88 net acres

The drawer, payee and endorsers hereof, and the grantors of the instrument described hereon, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time specified subject to acceptance of payment hereof by the drawee, within said time, and without any right of the drawer, payee or endorsers hereof, or said grantors to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration.

TO: MERIDIAN OIL, Drawee

NationsBank of Texas, N.A. - Midland 522  
P.O. Box 830200  
Dallas, TX 75283-0200

AUTHORIZED SIGNATORY

MO-0018 (12/88)

Green Copy - Regional Land Department  
Pink Copy - Ft. Worth General Accounting  
Blue Copy - Ft. Worth Land Department  
White Copy - Regional Accounting

GA. ACCOUNT CODING

PROPERTY NUMBER

TRANSACTION CODE

AFE

2 4 0 0 1

1

OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 10th day of July 1995 between Betty Osborne, P. O. Box 17968,  
Houston, Texas 78286

as Lessor (whether one or more) and  
Meridian Oil Inc., P.O. Box 51810, Midland TX 79710-1810 as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee; but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. Description. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants exclusively to Lessee the following described land (use attachment for long descriptions):

T-10-S, R-38-E, N.M.P.M.  
Section 30: E/2

\*Notwithstanding anything contained herein to the contrary, the royalties payable under Paragraph 4 herein shall be 1/6th instead of the stated 1/8th.

In the County of Lea, State of New Mexico containing 320.0 acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered.

2. Term of Lease. This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Rental Payment. If on or before the first anniversary date hereof operations for the drilling of a well for oil or gas or other substances covered hereby have not been commenced on the leased premises or land pooled therewith, or if there then is no production in paying quantities from the leased premises or land pooled therewith, then subject to Paragraph 5 below this lease shall terminate as to both parties unless Lessee on or before that date pays to Lessor or to Lessor's credit in the

Bank at \_\_\_\_\_ or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land, the sum of \$ 320.00 as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of twelve months from said anniversary date. In like manner and upon like payments, the commencement of operations for the drilling of a well may be further deferred for one or more twelve-month periods during the primary term of this lease. All payments may be made by check or draft mailed or delivered on or before the rental payment date. If the depository bank should liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental payment hereunder, Lessee shall not be held in default for failure to make such payment unless Lessor has delivered to Lessee a proper recordable instrument naming another bank as depository agent to receive payments and Lessee has failed to make such payment within 60 days after receipt of such notice. It is agreed that the cash bonus consideration first recited above covers not only the right to defer drilling during the first year of this lease, but also all subsequent deferrals of drilling as aforesaid, along with all other rights of Lessee hereunder. If on or before any rental payment date Lessee in good faith makes an erroneous rental payment by paying the wrong person, the wrong depository, or the wrong amount, Lessee shall be unconditionally obligated to make proper rental payment for the period involved and this lease shall continue in effect as though such rental payment had been properly made, provided that proper rental payment shall be made within 30 days after receipt by Lessee of written notice of the error from Lessor, accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

\* 4. Royalty Payment. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the Lessee's oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same or nearest field for production of similar grade and gravity; (b) For gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the costs incurred by Lessee in delivering, compressing, processing or otherwise making such gas or other substance merchantable, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same or nearest field pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) If a well on the leasehold premises or lands pooled therewith is capable of producing gas (including casinghead gas) but such well is either shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor, and if this lease is not otherwise maintained in effect, such well shall nevertheless be considered as though it were producing gas in paying quantities for the purpose of maintaining this lease, whether during or after the primary term, if Lessee pays shut-in royalty of One Dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository bank designated above, on or before the next ensuing anniversary date of this lease, or within 90 days after such anniversary date, and thereafter on or before each anniversary date hereof while the well is shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor; for the purpose of calculating shut-in royalties, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

5. Operations. If Lessee drills a well incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if production in paying quantities permanently ceases from any cause, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of production, or; should the lease be within the primary term, if Lessee pays rental on or before the next rental payment date (if any) next ensuing after the expiration of said 90-day period; provided that should completion of operations on the dry hole or cessation of production occur less than 90 days before the last rental payment date, no rental payments or further operations shall be required to maintain this lease for the remainder of the primary term. If at the end of the primary term or at any time thereafter this lease is not otherwise being maintained in force, it shall nevertheless remain in force as long as Lessee, without an interruption of more than 90 consecutive days, engages in drilling, reworking or any other operations reasonably calculated to obtain or restore production on the leased premises or lands pooled therewith, and, if such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities.

6. Pooling. Lessee shall have the right but not the obligation to pool all or part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to oil or gas or both, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well shall not exceed 80 acres plus a maximum acreage tolerance of 10%, except that larger units may be formed for oil wells or gas wells to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction. To exercise its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production produced and saved which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. The restrictions and requirements of this Paragraph 6 shall not apply to compulsory pooling of interest effected by operation of law or by order of any governmental authority having jurisdiction, but all other references to pooling contained in this lease shall include such compulsory pooling as well as pooling effected under this Paragraph 6.

7. Lessor's Interest. If Lessor owns less than the entire and undivided mineral estate in the above-described land or any portion thereof, the royalties, shut-in royalties and rentals herein provided shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided mineral estate in said land or portion thereof. Any interest in the production from the lands herein described to which the interest of Lessor may be subject, shall be deducted from the royalty herein reserved.

8. Ownership Changes. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 45 days after Lessee has been furnished the originals or certified copies of the documents effecting such change, or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order, which Lessor hereby agrees to execute prior to the payment of royalties hereunder. In the event of the death of any person entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to the estate of decedent or decedent's estate in the depository bank designated above; if at any time two or more persons are entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties of such persons or to their credit in the depository bank, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to the interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay rental hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

9. Release of Lessee. Lessee may at any time and from time to time deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease in any depth or zone thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligations to pay rentals and shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

10. **Accessory Rights.** In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations and other facilities to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. The right of ingress and egress granted hereby shall apply to the entire leased premises notwithstanding any release or other termination affecting any portion thereof. When requested by Lessor in writing, Lessee shall bury its pipelines below plow depth. No well shall be located less than 200 feet from any house or barn now on the leased premises without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises, and to timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises during the term of this lease or within a reasonable time thereafter.

11. **Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells and the price of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented, materially impeded or delayed by such laws, rules, regulations or orders, or by inability to obtain equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, war, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, nor shall Lessee be liable for breach of any express or implied covenant, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof.

12. **Breach or Default.** No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to remedy said breach or default. This Paragraph 12 shall not apply to the matters covered in Paragraph 3 hereof.

13. **Warranty of Title.** Lessor hereby warrants and agrees to defend Lessee's title hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If it exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made and, in addition to its other rights, may reimburse itself out of any rentals, royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of rentals, royalties and shut-in royalties hereunder until Lessee has been furnished satisfactory evidence that such claim has been resolved in Lessor's favor.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

WITNESSES AND/OR ATTESTATION:

LESSOR (WHETHER ONE OR MORE)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Betty Osborne  
SS#:  
\_\_\_\_\_

**ACKNOWLEDGEMENTS**

For use in Rocky Mountain States (Arizona, Colorado, Idaho, Montana, New Mexico, North Dakota, South Dakota, Wyoming, Utah)

State of Texas  
County of Harris

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared Betty Osborne

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19 95

My Commission Expires: \_\_\_\_\_

Notary Public

State of \_\_\_\_\_  
County of \_\_\_\_\_

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purpose therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public

State of \_\_\_\_\_  
County of \_\_\_\_\_

CORPORATE

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be \_\_\_\_\_ of \_\_\_\_\_, a corporation, and acknowledged to me that he or she executed the same as the act of said corporation for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public

**RECORDING INFORMATION**

State of \_\_\_\_\_  
County of \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, at \_\_\_\_\_ o'clock, \_\_\_\_\_ M., and duly recorded in Book \_\_\_\_\_ Page \_\_\_\_\_ of the \_\_\_\_\_ records of this office.

By \_\_\_\_\_ (Deputy)



**Fleet Family Mineral Properties**  
4332 Livingston Avenue  
Dallas, Texas 76206  
(214) 622-6003  
(214) 621-0016 Fax

10/04/95

## Telefax Message

**To:** Leslyn M. Swierc, CPL, Senior Landman  
Meridian Oil Inc.

**From:** John J. Fleet, II

**Re:** Form of Farmout and Lease

Dear Leslyn:

Here is our "Standard" Farmout and Oil and Gas Lease form.

Of course, any Farmout we agree upon would be changed to be specific to our agreement.

Sincerely,

John J. Fleet, II



**Fleet Family Mineral Properties**  
P.O. Box 25028  
Dallas, Texas 75225-1028  
(214) 522-5003  
Fax: (214) 521-0016  
Email: johnfleet@delphi.com

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11417 Exhibit No. 6  
Submitted By:  
MERIDIAN OIL, INC.

Farmout Agreement

10/04/95

Eberly & Meade, Inc.  
Attn: Susan Brown, Landmanager  
One Grand Park, Suite 210  
777 Northwest Grand Boulevard  
Oklahoma City, OK 73118

Re: H.A. Gage #6 Farm FO288 (114)  
NE/4 NE/4 and E/2 NW/4 NE/4 of 31-3N-1W  
Garvin County, Oklahoma.

Dear Ms. Brown:

We have been advised of your exploration plans by Maurice Whittenberg of Palo Duro Land Company. I also note that we have made a Farmout Agreement with you in the past on this tract. We are pleased to support your proposed exploration by again offering our Farmout under the following terms and conditions:

1. Eberly & Meade, Inc., hereinafter known as EM, agrees to drill a test well within six (6) months of the date hereof, on the above captioned tract, or upon a drilling and spacing unit in which the above captioned acreage will be included under the Rules and Regulations of the Oklahoma Corporation Commission, and prosecute the drilling thereof in a diligent and workmanlike manner at EM's sole cost, risk, expense, and liability, to a depth of approximately 5,700' to test the Deese Formation, in a good faith effort to establish commercial production of oil and/or gas.
2. EM shall furnish us with all information pertaining to the drilling, testing and completing of all wells drilled on the above captioned tract, or upon any unit into which the above captioned acreage has been placed, including daily drilling reports, a copy of all drill stem tests or other formation testing data, a copy of all well logs, completion reports, and production reports covering runs from the time of first production, all reports to be mailed as set out below, and we shall have access to the derrick floor and the lease at all times.  

Reports and Well Information Mailed to Each of the Following:

  - A. John J. Fleet, II, P.O. Box 25028, Dallas, Texas 75225-1028  
(214) 522-5003, FAX (214) 521-0016
  - B. Alice J. Dickey, 7608 N. Shadow Mtn., Paradise Valley, AZ 85253  
(602) 991-0150, FAX (602) 443-8724
3. Upon completion of said test well as above provided, and as a well capable of producing commercial quantities of oil and/or gas, and upon written request within thirty (30) days of the filing of the completion report with the Oklahoma Corporation Commission, we will deliver to EM an Oil and Gas Lease on the form that is attached hereto and made a part hereof, providing for the payment of a 1/4 royalty to Lessors as consideration therefore, covering the drilling and spacing unit upon which the producing well is located.
4. If EM's initial test well on the above captioned Farmout acreage is not commenced, tested and completed as herein provided, this agreement shall become null and void and without further obligation on either party.
5. This Farmout Agreement covers, without warranty of title, the unleased interests of John J. Fleet, John J. Fleet, II and Alice J. Dickey, to the extent that either of them own an interest in the property covered by this Farmout Agreement. This agreement may be signed in counterpart.
6. Payment made to Lessors hereunder for oil and/or gas produced herefrom shall be made direct to Lessors by the original purchaser under division orders executed by said Lessors.

7. This Agreement may not be amended, extended or assigned, in whole or in part, without the specific written approval of the parties hereto.

If the terms and conditions of this Farmout are acceptable to you, please signify your acceptance hereof by signing in the space provided below and returning one fully executed copy to John J. Fleet in Dallas, and one copy to Alice J. Dickey in Arizona, within twenty (20) days of your receipt hereof.

Sincerely,

\_\_\_\_\_  
John J. Fleet

\_\_\_\_\_  
John J. Fleet, II

\_\_\_\_\_  
Alice J. Dickey

JJFII/msw

The Above Farmout Agreement is Agreed To and Accepted on this \_\_\_\_\_ day of \_\_\_\_\_, 199\_\_.

Eberly and Meade, Inc..

By \_\_\_\_\_

Title \_\_\_\_\_

**FLEET FAMILY OIL & GAS LEASE**Farm: H.A. Gage #6 Farm FO288 (114)

AGREEMENT, Made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 199\_\_\_\_, by and between John J. Fleet, and John J. Fleet, II, P.O. Box 25028, Dallas, Texas 75225-1028, and Alice J. Dickey, 7608 N. Shadow Mtn. Road, Paradise Valley, Arizona 85253, Parties of the first part, hereinafter called Lessor, whether one or more, and Eberly & Meade, Inc., One Grand Park, Suite 210, 777 N.W. Grand Blvd., Oklahoma City, OK 73118, Party of the second part, hereinafter called Lessee.

WITNESSETH, That the said Lessor, for and in consideration of Ten (\$10.00) Dollars, cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of Lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise lease and let unto the said Lessee, for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), and for laying pipe lines, and building tanks, power stations and structures thereon, to produce, save and take care of said products, all that certain tract of land, together with any reversionary rights therein, situated in the County of Seminole, State of Oklahoma, described as follows, to-wit:

Description: Northeast Quarter of the Northeast Quarter (NE/4 NE/4) and East One-Half of the Northwest Quarter of the Northeast Quarter (E/2 NW/4 NE/4) of Section 31, Township 3 North, Range 1 West, containing 60 acres, more or less.

It is agreed that this lease shall remain in force for a term of One (1) Year from the date hereof (herein called Primary Term) and as long thereafter as oil or gas, or either of them, is produced from said land by the Lessee.

In consideration of the premises the said Lessee covenants and agrees:

To deliver to the credit of Lessor free of cost, in the pipe line to which it may connect its wells, the one-fourth (1/4th) part of all oil (including but not limited to condensate and distillate) produced and saved from the leased premises.

To pay Lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom, one-fourth (1/4th) of the gross proceeds received for the gas sold, used off the premises, or in the manufacture of products therefrom, but in no event more than one-fourth (1/4th) of the actual amount received by the Lessee, said payments to be made monthly. During any period (whether before or after expiration of the Primary Term hereof) when gas is not being sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, Lessee shall pay or tender a royalty of Ten Dollars (\$10.00) per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment is made it will be considered that gas is being produced within the meaning of the entire lease. Lessor shall have the privilege at his risk and expense of using gas from any well on the leased premises for stoves and inside lights in the principal dwelling thereon out of any surplus gas not needed for operations hereunder.

To pay Lessor for gas produced from any oil wells and used off the premises, or for the manufacture of casinghead gasoline or dry commercial gas, one-fourth (1/4th) of the gross proceeds, at the mouth of the well, received by Lessee for the gas during the time such gas shall be used, said payments to be made monthly.

To deliver to Lessor at its address as set out above a copy of all logs, core reports, formation tests, completion reports and plugging reports as filed with the Oklahoma Corporation Commission with respect to any well drilled on these premises and it is understood that Lessor shall have the right of access to all operations conducted hereunder.

The Lessor shall have the right to take its production in kind or separately dispose of its proportionate share of all oil and gas produced from these premises. Each Lessor shall execute such division orders and contracts as may be necessary for the sale of its interest in production from these premises and each Lessor shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

If the Lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the Lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

This Lease shall be limited in depth from the surface to the base of the deepest formation encountered in the first well drilled on the above land, or upon any land with which this Lease is pooled or consolidated by Order of the Oklahoma Corporation Commission. Three (3) years after the end of the primary term of this Lease, the same shall terminate as to all formations except the formation or formations which are actually producing oil or gas or either of them in commercial quantities; Three (3) years after the end of the primary term of this Lease, the same shall terminate as to all undeveloped locations. A "developed" location shall consist of the geographical ten (10) acres upon which a producing well is located, or if drilling and spacing units have been established by Order of the Oklahoma Corporation Commission, then a developed location shall consist of the drilling and spacing unit upon which each producing well is located.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof for the production of oil or gas or either of them. However, no unit for the production primarily of oil shall embrace more than 40 acres, or for the production primarily of gas, with or without distillate, more than 160 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such allocation or allowable. Operations upon and production from the unit shall be treated as if such operations were upon or such production were from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production from the unit shall be as below provided, and except that in calculating the amount of any shut-in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor only such proportion of the royalties stipulated herein as the amount of his acreage placed in the unit, or his royalty interest therein on an acreage basis bears to the total acreage in the unit.

If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to Lessor only in the proportion which its interest bears to the whole and undivided fee. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of Lessor. When requested by the Lessor, Lessee shall bury his pipelines below plow depth. Lessee shall pay for all damages caused by its operations to growing crops on said land. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the Lessee until after the Lessee has been furnished with a written transfer or assignment or a true copy thereof. In case Lessee assigns this Lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

All express or implied covenants of this lease shall be subject to all Federal and State laws, Executive Orders, Rules and Regulations, and this Lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or such failure is the result of any such Law, Order, Rule or Regulation.

This Lease shall be effective as to each Lessor on execution hereof as to his or her interest and shall be binding on those signing, notwithstanding some of the Lessors above named may not join in the execution hereof. The word "Lessor" or "Lessors" as used in this Lease means the party or parties who execute this Lease as Lessors, although not named above.

Lessee and his heirs and assigns shall be liable for, and shall exonerate, indemnify and defend Lessor and its successors in title, and all surface owners and surface renters of lands to which this oil and gas lease pertains, against any and all claims, losses, damages and costs including response costs, arising from any acts or omissions pertaining to activities or operations of Lessee, its employees, representatives, agents, invitees, guests or contractors, and any and all expenses connected therewith (including, without limitation, attorney's fees). Such liability, exoneration and indemnification shall, without limitation, (1) cover bodily injury, death, damage to property or natural resources, and compliance with all legal obligations (including, without limitation, any governmental order, directive or demand to test for, monitor, clean-up, remove, contain, treat, detoxify or neutralize any pollutants or to conduct any corrective action and to undertake any response, removal or remedial activity, and to pay the costs thereof), arising from any presence, treatment, storage, disposal, dispersal, discharge, release or escape of hydrocarbons, chlorides, gas vapors or other irritants, or contaminants, pollutants, hazardous material, hazardous substance or waste, chemical waste, or any other toxic substance, or oil or gas or fractions thereof even if not considered hydrocarbons, and any spillage therefrom, and (2) be deemed a continuing liability, exoneration and indemnification, without limitation of duration, that shall survive the expiration or termination of this lease and of the activities and operations of Lease, and shall apply after discovery of conditions and matters that were not actually discovered prior to such expiration or termination of the lease.

Lessee may at any time and from time to time surrender this Lease as to any part or parts of the leased premises by delivering or mailing a release thereof to Lessor, or by placing a release of record in the proper County and furnishing Lessor a true copy thereof.

Lessor hereby agrees that the Lessee shall have the right at any time to redeem for Lessor by payment any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof.

IN TESTIMONY WHEREOF, we sign this the \_\_\_\_ day of \_\_\_\_\_, 199\_\_.

\_\_\_\_\_  
John J. Fleet

\_\_\_\_\_  
John J. Fleet,II

\_\_\_\_\_  
Alice J. Dickey

State of Texas, County of Dallas, ss:

Before me, the undersigned, a Notary Public in and for said County and State on this \_\_\_\_ day of \_\_\_\_\_, 199\_\_, personally appeared John J. Fleet, to me known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My Commission Expires \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

**State of Texas, County of Dallas, ss:**

Before me, the undersigned, a Notary Public in and for said County and State on this \_\_\_\_ day of \_\_\_\_\_, 199\_\_, personally appeared John J. Fleet, II, to me known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My Commission Expires \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

**State of Arizona, County of Maricopa, ss:**

Before me, the undersigned, a Notary Public in and for said County and State on this \_\_\_\_ day of \_\_\_\_\_, 199\_\_, personally appeared Alice J. Dickey, to me known to be the identical person who executed the within and foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My Commission Expires \_\_\_\_\_.

\_\_\_\_\_  
Notary Public



**Fleet Family Mineral Properties**  
4332 Livingston Avenue  
Dallas, Texas 75206  
(214) 522-5003  
(214) 521-0016 Fax

10/03/95

## Telefax Message

**To:** Leslyn M. Swierc, CPL, Senior Landman  
Meridian Oil Inc.

**From:** John J. Fleet, II

**Re:** K. C. Bates #1, NMR-112(714)  
E/2 30-10S-38E, Lea Co, NM

**Dear Mr. Swierc:**

**I am in receipt of a copy of your fax to my Cousin, AJ Dickey in Arizona, with respect to the above captioned acreage.**

**I would be glad to support your intended exploration with our Farmout, where a commercial well will earn a restricted Oil and Gas Lease, but the 20% royalty is unacceptable. We would require our normal 25%.**

**Please direct all correspondence for John J. Fleet to the above address.**

**Thanks.**

A handwritten signature in black ink that reads "John J. Fleet, II". The signature is written in a cursive, flowing style.

**John J. Fleet, II**

Z 111 002 525



### Receipt for Certified Mail

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

PS Form 3800, March 1993

Sent to	Alice J. Dickey & John J. Fleet
Street and No.	2608 B. Shadow Mountain
P.O., State and Zip Code	Paradise Valley, Arizona
Postage	\$ 85253
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom, Date, and Addressee's Address	
Return Receipt Showing to Whom, Date, and Addressee's Address	
OTAL Postage & Fees	\$
Postmark or Date	9-11-95

your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b> 1 1 and/or 2 for additional services. 1 1</p> <p>2. Complete items 3, and 4a &amp; b.</p> <p>3. Print your name and address on the reverse of this form so that we can return this card to you.</p> <p>4. Attach this form to the front of the mailpiece, or on the back if space does not permit.</p> <p>5. Write "Return Receipt Requested" on the mailpiece below the article number. The Return Receipt will show to whom the article was delivered and the date delivered.</p>		<p>1 also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p>
<p>3. Article Addressed to:</p> <p>Alice J. Dickey &amp; John J. Fleet 7608 B. Shadow Mountain Paradise Valley, Arizona 85253</p>	<p>4a. Article Number</p> <p>Z 111 002 525</p>	
<p>5. Signature (Addressee)</p> <p><i>Alice J. Dickey</i></p>	<p>4b. Service Type</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured</p> <p><input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD</p> <p><input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p>	
<p>6. Signature (Agent)</p> <p><i>John J. Fleet</i></p>	<p>7. Date of Delivery</p> <p>9-13-95</p>	
<p>PS Form 3811, December 1991 *U.S. GPO: 1993-352-714</p>	<p><b>DOMESTIC RETURN RECEIPT</b></p>	

Thank you for using Return Receipt Service.

# MERIDIAN OIL

September 11, 1995

Ms. Alice J. Dickey  
Mr. John J. Fleet  
c/o Alice J. Dickey  
7608 B. Shadow Mountain  
Paradise Valley, Arizona 85253

Re: Well Proposal - East Echols Prospect  
Aunt Lula 30 #1  
1980' FSL & 660' FEL Section 30  
T-10-S, R-38-E  
Lea County, New Mexico

Dear Ms. Dickey:

Meridian Oil Inc. ("Meridian") hereby proposes the drilling of the Aunt Lula "30" #1 (the "Well"), a 9,900' Wolfcamp test located in the E/2 Section 30, T-10-S, R-38-E, Lea County, New Mexico, to be spud in October, 1995. Our records indicate that Alice J. Dickey ("Dickey") owns a 1/16th mineral interest and John J. Fleet ("Fleet") owns a 1/24th mineral interest in said acreage.

Enclosed for your review and execution is an AFE in the amount of \$820,000 to drill, complete and equip the Well. If you elect to participate in the drilling of the Well, please execute and return the AFE to the undersigned by October 1, 1995. Upon Meridian's receipt of said AFE, Meridian and Dickey and Fleet will enter into a mutually-acceptable joint Operating Agreement using AAPL form 610 (1982) Joint Operating Agreement which (a) designates Meridian Oil Inc. as operator, (b) provides in Article VI.B.2. for recoupment of 100%/300%/300% of all well costs through the wellhead in the event of operations by less than all parties, (c) omits the provision for the preferential right to purchase, and (d) provides in Article VII.D.1. for a casingpoint election. An Exhibit "C" (Accounting Procedure), Exhibit "D" (Insurance Requirements) and Exhibit "E" (Gas Balancing Agreement) will also be forwarded for your review.

If, however, Dickey and Fleet should elect not to participate in the drilling of the Well, Meridian respectfully requests a farmin of Dickey's and Fleet's interests in the E/2 Section 30, said farmin shall (i) deliver to Meridian an 80% net revenue interest, (ii) require the Well to be spud on or before November 1, 1995, and (iii) will provide for a 180-day continuous development.

As this well is a wildcat in the Tatum Basin, it is essential that Meridian be delivered no less than an 80% net revenue interest or the drilling of the Well becomes uneconomic. In the event Meridian and Dickey and Fleet are unable to reach mutually acceptable farmout terms to provide for the drilling of the Well by October 1, 1995, please be advised that this proposal will be scheduled for a compulsory pooling hearing to be held on November 2, 1995.

Ms. Alice J. Dickey  
Mr. John J. Fleet  
September 11, 1995  
Page 2

I will be happy to discuss any issues or questions you may have with respect to this proposal. As time is of the essence, I will be available to prepare agreements, if necessary, to expedite this process. You may reach me by phone at (915) 688-6928 or by fax at (915) 688-6010.

Thank you very much for your response.

Very truly yours,

MERIDIAN OIL INC.

A handwritten signature in cursive script that reads "Leslyn M. Swierc". The signature is written in black ink and is positioned above the printed name.

Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs

Z 111 002 558



**Receipt for Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

PS Form 3800, March 1993

Sent to <i>John J. Fleet</i>	
State and ZIP Code <i>11088 Shadow Mtn Paradise Valley AZ</i>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	<i>7/5/95</i>

Is your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b></p> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number. The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>		<p>also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p>	
<p>3. Article Addressed to:</p> <p><i>John J. Fleet</i> c/o Alice J. Dickey 7608-B Shadow Mountain Paradise Valley AZ 85253</p>		<p>4a. Article Number <i>2 111 002 558</i></p>	
<p>5. Signature (Addressee) <i>J. J. Fleet</i></p>		<p>4b. Service Type  <input type="checkbox"/> Registered <input type="checkbox"/> Insured  <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD  <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p>	
<p>6. Signature (Agent)</p>		<p>7. Date of Delivery <i>7-7-95</i></p>	
<p>PS Form 3811, December 1991 *U.S. GPO: 1993-352-714</p>		<p>8. Addressee's Address (Only if requested and fee is paid)</p>	

DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

# MERIDIAN OIL

July 5, 1995

Mr. John J. Fleet  
c/o Ms. Alice J. Dickey  
7608-B Shadow Mountain  
Paradise Valley, Arizona 85253

Re: East Echols Prospect  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico  
containing 320 acres, more or less

Dear Mr. Fleet:

Meridian Oil Inc. is interested in acquiring an oil and gas lease covering the undivided 1/24th mineral interest owned by you in the captioned acreage. The mineral interest in the captioned acreage stated herein is based upon an examination of the records of Lea County, New Mexico. Meridian is offering to acquire this lease under the following terms:

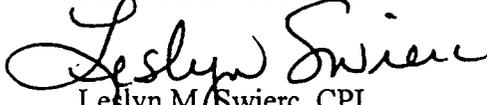
Bonus:	\$40/net acre
Royalty:	1/6th
Primary Term:	Five (5) years
Delay Rental:	\$1.00/acre

The offer detailed herein is subject to verification and delivery of clear title. If you are in agreement with these terms, please execute the enclosed Oil and Gas Lease and draft, fill in your Social Security number and depository bank on the lease and deposit the lease and draft with your bank for collection.

Thank you in advance for your consideration of this request. If you have any questions or comments regarding this proposal, please do not hesitate to call me at (915) 688-6928. I shall look forward to your reply.

Very truly yours,

MERIDIAN OIL INC.

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encls.

On approval of instrument described hereon, and on approval of title to same by Drawee not later than thirty (30) calendar days after arrival of this draft at collecting bank.

**DRAFT**  
FOR COLLECTION ONLY  
NOT A CASH ITEM

NO. T-20371

CONTROL NO.

Prospect East Echols  
County Lea State New Mexico  
Date July 5 1950

PAY TO John J. Fleet

\$ 533.33

Five Hundred Thirty Three and 33/100

DOLLARS

Covering Oil and Gas Lease covering 1/24th mineral interest in E/2 Section 30, T-10-S, R-38-E,

N.M.P.M., 320 gross acres, 13.33 net acres

The drawer, payee and endorsers hereof and the grantors of the instrument described hereon, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time specified subject alone to acceptance of payment hereof by the drawee, within said time, and without any right of the drawer, payee or endorsers hereof, or said grantors to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration.

TO: **MERIDIAN OIL**, Drawee  
NationsBank of Texas, N.A. - Midland 522  
P.O. Box 830200  
Dallas, TX 75283-0200

AUTHORIZED SIGNATORY

MO-0018 (12/88)

Green Copy - Regional Land Department  
Pink Copy - Ft. Worth General Accounting  
Blue Copy - Ft. Worth Land Department  
White Copy - Regional Accounting

GL ACCOUNT CODING

PROPERTY NUMBER

TRANSACTION CODE

AFE

2 4 0 0 1

1

OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 10th day of July, 1995 between John J. Fleet, c/o Alice J. Dickey,  
7608-B Shadow Mountain, Paradise Valley, Arizona 85253

as Lessor (whether one or more) and  
Meridian Oil Inc., P.O. Box 51810, Midland TX 79710-1810 as Lessee. All printed portions of this lease were prepared by  
the party hereinabove named as Lessee; but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. Description. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants exclusively to Lessee the following described land (use attachment for long descriptions):

T-10-S, R-38-E, N.M.P.M.  
Section 30, E/2

\*Notwithstanding anything contained herein to the contrary, the royalties payable under Paragraph 4 herein shall be 1/6th instead of the stated 1/8th.

In the County of Lea, State of New Mexico containing 320.0 acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land; and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered.

2. Term of Lease. This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Rental Payment. If on or before the first anniversary date hereof operations for the drilling of a well for oil or gas or other substances covered hereby have not been commenced on the leased premises or land pooled therewith, or if there then is no production in paying quantities from the leased premises or land pooled therewith, then subject to Paragraph 5 below this lease shall terminate as to both parties unless Lessee on or before that date pays to Lessor or to Lessor's credit in the

Bank at \_\_\_\_\_, or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land, the sum of \$ 320.00 as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of twelve months from said anniversary date. In like manner and upon like payments, the commencement of operations for the drilling of a well may be further deferred for one or more twelve-month periods during the primary term of this lease. All payments may be made by check or draft mailed or delivered on or before the rental payment date. If the depository bank should liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental payment hereunder, Lessee shall not be held in default for failure to make such payment unless Lessor has delivered to Lessee a proper recordable instrument naming another bank as depository agent to receive payments and Lessee has failed to make such payment within 60 days after receipt of such notice. It is agreed that the cash bonus consideration first recited above covers not only the right to defer drilling during the first year of this lease, but also all subsequent deferrals of drilling as aforesaid, along with all other rights of Lessee hereunder. If on or before any rental payment date Lessee in good faith makes an erroneous rental payment by paying the wrong person, the wrong depository, or the wrong amount, Lessee shall be unconditionally obligated to make proper rental payment for the period involved and this lease shall continue in effect as though such rental payment had been properly made, provided that proper rental payment shall be made within 30 days after receipt by Lessee of written notice of the error from Lessor, accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

\* 4. Royalty Payment. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the Lessee's oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same or nearest field for production of similar grade and gravity; (b) For gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the costs incurred by Lessee in delivering, compressing, processing or otherwise making such gas or other substance merchantable, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same or nearest field pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) If a well on the leasehold premises or lands pooled therewith is capable of producing gas (including casinghead gas) but such well is either shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor, and if this lease is not otherwise maintained in effect, such well shall nevertheless be considered as though it were producing gas in paying quantities for the purpose of maintaining this lease, whether during or after the primary term, if Lessee pays shut-in royalty of One Dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository bank designated above, on or before the next ensuing anniversary date of this lease, or within 90 days after such anniversary date, and thereafter on or before each anniversary date hereof while the well is shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor. For the purpose of calculating shut-in royalties, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

5. Operations. If Lessee drills a well incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if production in paying quantities permanently ceases from any cause, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of production, or, should the lease be within the primary term, if Lessee pays rental on or before the next rental payment date (if any) next ensuing after the expiration of said 90-day period; provided that should completion of operations on the dry hole or cessation of production occur less than 90 days before the last rental payment date, no rental payments or further operations shall be required to maintain this lease for the remainder of the primary term. If at the end of the primary term or at any time thereafter this lease is not otherwise being maintained in force, it shall nevertheless remain in force as long as Lessee, without an interruption of more than 90 consecutive days, engages in drilling, reworking or any other operations reasonably calculated to obtain or restore production on the leased premises or lands pooled therewith, and, if such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities.

6. Pooling. Lessee shall have the right but not the obligation to pool all or part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to oil or gas or both, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well shall not exceed 640 acres plus a maximum acreage tolerance of 10%, except that larger units may be formed for oil wells or gas wells to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction. To exercise its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production produced and saved which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. The restrictions and requirements of this Paragraph 6 shall not apply to compulsory pooling of interest effected by operation of law or by order of any governmental authority having jurisdiction; but all other references to pooling contained in this lease shall include such compulsory pooling as well as pooling effected under this Paragraph 6.

7. Lessor's Interest. If Lessor owns less than the entire and undivided mineral estate in the above-described land or any portion thereof, the royalties, shut-in royalties and rentals herein provided shall be paid to Lessee only in the proportion which Lessor's interest bears to the whole and undivided mineral estate in said land or portion thereof. Any interest in the production from the lands herein described to which the interest of Lessor may be subject, shall be deducted from the royalty herein reserved.

8. Ownership Changes. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 45 days after Lessee has been furnished the originals or certified copies of the documents effecting such change; or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order, which Lessor hereby agrees to execute prior to the payment of royalties hereunder. In the event of the death of any person entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to the credit of decedent or decedent's estate in the depository bank designated above. If at any time two or more persons are entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to such persons or to their credit in the depository bank, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to the interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay rental hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

9. Release of Lease. Lessee may at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depth or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligations to pay rentals and shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

Z 111 002 557

### Receipt for Certified Mail



No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Send to	<i>Alice Dickey</i>
City and No.	<i>7608-B Shadow Mtn.</i>
P.O. State and ZIP Code	<i>Paradise Valley AZ</i>
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	<i>7/5/95</i>

PS Form 3800, March 1993

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to:  
 Ms. Alice J. Dickey  
 7608-B Shadow Mountain  
 Paradise Valley, Arizona 85253

4a. Article Number  
 Z 111 002 557

4b. Service Type  
 Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

5. Signature (Agent)  
*A. J. Dickey*

6. Signature (Agent)

I also wish to receive the following services (for an extra fee):

- Addressee's Address
- Restricted Delivery

Consult postmaster for fee.

7. Date of Delivery  
*7-7-95*

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

Thank you for using Return Receipt Service.

PS Form 3811, December 1991 \*U.S. GPO: 1993-352-714 DOMESTIC RETURN RECEIPT

# MERIDIAN OIL

July 5, 1995

Ms. Alice J. Dickey  
7608-B Shadow Mountain  
Paradise Valley, Arizona 85253

Re: East Echols Prospect  
T-10-S-R-38-E  
Section 30: E/2  
Lea County, New Mexico  
containing 320 acres, more or less

*81.25 threshold*  
*will farm out*  
*Don't lease for*  
*bonus*

Dear Ms. Dickey:

Meridian Oil Inc. is interested in acquiring an oil and gas lease covering the undivided 1/16th mineral interest owned by you in the captioned acreage. The mineral interest in the captioned acreage stated herein is based upon an examination of the records of Lea County, New Mexico. Meridian is offering to acquire this lease under the following terms:

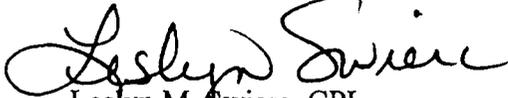
Bonus:	\$40/net acre
Royalty:	1/6th
Primary Term:	Five (5) years
Delay Rental:	\$1.00/acre

The offer detailed herein is subject to verification and delivery of clear title. If you are in agreement with these terms, please execute the enclosed Oil and Gas Lease and draft, fill in your Social Security number and depository bank on the lease and deposit the lease and draft with your bank for collection.

Thank you in advance for your consideration of this request. If you have any questions or comments regarding this proposal, please do not hesitate to call me at (915) 688-6928. I shall look forward to your reply.

Very truly yours,

MERIDIAN OIL INC

  
Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encls.

On approval of instrument described hereon, and on approval of title to same by Drawee not later than thirty (30) calendar days after arrival of this draft at collecting bank.

**DRAFT**  
FOR COLLECTION ONLY  
NOT A CASH ITEM

NO. **T 20370**

CONTROL NO. \_\_\_\_\_

Prospect East Echols

County Lea State New Mexico

July 5 1985

PAY TO Alice J. Dickey

**800.00**

Eight Hundred and No/100

DOLLARS

Covering Oil and Gas Lease covering 1/16th mineral interest in E/2 Section 30, T-10-S, R-38-E,

N.M.P.M., 320 gross acres, 20 net acres

The drawer, payee and endorsers hereof, and the grantors of the instrument described hereon, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time specified subject alone to acceptance of payment hereof by the drawee, within said time, and without any right of the drawer, payee or endorsers hereof, or said grantors to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration.

**TO: MERIDIAN OIL**, Drawee  
NationsBank of Texas, N.A. - Midland 522  
P.O. Box 830200  
Dallas, TX 75283-0200

AUTHORIZED SIGNATORY

MO-0018 (12/88)

Green Copy - Regional Land Department  
Pink Copy - Ft. Worth General Accounting  
Blue Copy - Ft. Worth Land Department  
White Copy - Regional Accounting  
G/L ACCOUNT CODING

PROPERTY NUMBER

TRANSACTION CODE

AFE

2 4 0 0 1

1

### OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 10th day of July, 1995 between Alice J. Dickey, 7608-B Shadow Mountain, Paradise Valley, Arizona 85253

Meridian Oil Inc., P.O. Box 51810, Midland TX 79710-1810 as Lessor (whether one or more) and the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. Description. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants exclusively to Lessee the following described land (use attachment for long descriptions):

T-10-S, R-38-E, N.M.P.M.  
Section 30: E/2

\*Notwithstanding anything contained herein to the contrary, the royalties payable under Paragraph 4 herein shall be 1/6th instead of the stated 1/8th.

in the County of Lea, State of New Mexico containing 320.0 acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered.

2. Term of Lease. This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Rental Payment. If on or before the first anniversary date hereof operations for the drilling of a well for oil or gas or other substances covered hereby have not been commenced on the leased premises or land pooled therewith, or if there then is no production in paying quantities from the leased premises or land pooled therewith, then subject to Paragraph 5 below this lease shall terminate as to both parties unless Lessee on or before that date pays to Lessor or to Lessor's credit in the

Bank at \_\_\_\_\_ or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land, the sum of \$ 320.00 as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of twelve months from said anniversary date. In like manner and upon like payments, the commencement of operations for the drilling of a well may be further deferred for one or more twelve-month periods during the primary term of this lease. All payments may be made by check or draft mailed or delivered on or before the rental payment date. If the depository bank should liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental payment hereunder, Lessee shall not be held in default for failure to make such payment unless Lessor has delivered to Lessee a proper recordable instrument naming another bank as depository agent to receive payments and Lessee has failed to make such payment within 60 days after receipt of such notice. It is agreed that the cash bonus consideration first recited above covers not only the right to defer drilling during the first year of this lease, but also all subsequent deferrals of drilling as aforesaid, along with all other rights of Lessee hereunder. If on or before any rental payment date Lessee in good faith makes an erroneous rental payment by paying the wrong person, the wrong depository, or the wrong amount, Lessee shall be unconditionally obligated to make proper rental payment for the period involved and this lease shall continue in effect as though such rental payment had been properly made, provided that proper rental payment shall be made within 30 days after receipt by Lessee of written notice of the error from Lessor, accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

\* 4. Royalty Payment. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the Lessee's oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same or nearest field for production of similar grade and gravity; (b) For gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the costs incurred by Lessee in delivering, compressing, processing or otherwise making such gas or other substance merchantable, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same or nearest field pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if a well on the leasehold premises or lands pooled therewith is capable of producing gas (including casinghead gas) but such well is either shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor, and if this lease is not otherwise maintained in effect, such well shall nevertheless be considered as though it were producing gas in paying quantities for the purpose of maintaining this lease, whether during or after the primary term, if Lessee pays shut-in royalty of One Dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository bank designated above, on or before the next ensuing anniversary date of this lease, or within 90 days after such anniversary date, and thereafter on or before each anniversary date hereof while the well is shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor. For the purpose of calculating shut-in royalties, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

5. Operations. If Lessee drills a well incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if production in paying quantities permanently ceases from any cause, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of production, or, should the lease be within the primary term, if Lessee pays rental on or before the next rental payment date (if any) next ensuing after the expiration of said 90-day period; provided that should completion of operations on the dry hole or cessation of production occur less than 90 days before the last rental payment date, no rental payments or further operations shall be required to maintain this lease for the remainder of the primary term. If at the end of the primary term or at any time thereafter this lease is not otherwise being maintained in force, it shall nevertheless remain in force as long as Lessee, without an interruption of more than 90 consecutive days, engages in drilling, reworking or any other operations reasonably calculated to obtain or restore production on the leased premises or lands pooled therewith, and, if such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities.

6. Pooling. Lessee shall have the right but not the obligation to pool all or part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to oil or gas or both, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well shall not exceed 80 acres plus a maximum acreage tolerance of 10%, except that larger units may be formed for oil wells or gas wells to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction. To exercise its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production produced and saved which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction of both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. The restrictions and requirements of this Paragraph 6 shall not apply to compulsory pooling of interest effected by operation of law or by order of any governmental authority having jurisdiction; but all other references to pooling contained in this lease shall include both compulsory pooling as well as pooling effected under this Paragraph 6.

7. Lessor's Interest. If Lessor owns less than the entire and undivided mineral estate in the above-described land or any portion thereof, the royalties, shut-in royalties and rentals herein provided shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided mineral estate in said land or portion thereof. Any interest in the production from the lands hereof described on which the interest of Lessor may be subject, shall be deducted from the royalty herein reserved.

8. Ownership Changes. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the right of enforcing the obligations of Lessee hereunder and no change in ownership shall be binding on Lessee until 45 days after Lessee has been furnished the originals or certified copies of the documents affecting such change, or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order, which Lessor hereby agrees to execute prior to the payment of royalties hereunder. In the event of the death of any person entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to the credit of decedent or decedent's estate in the depository bank designated above; if at any time two or more persons are entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to such persons or to their credit in the depository bank, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to the interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay rental hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

9. Release of Lease. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligations to pay rentals and shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

10. **Abutment Rights.** In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations and other facilities to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. The right of ingress and egress granted hereby shall apply to the entire leased premises notwithstanding any lease or other termination affecting any portion thereof. When requested by Lessor in writing, Lessee shall bury its pipelines below plow depth. No well shall be located less than 200 feet from any house or barn now on the leased premises without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises, and to timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises during the term of this lease or within a reasonable time thereafter.

11. **Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells and the price of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented, materially impeded or delayed by such laws, rules, regulations or orders, or by inability to obtain equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, war, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, the period of such prevention or delay shall be added to the term hereof.

12. **Breach or Default.** No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or canceled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to remedy said breach or default. This Paragraph 12 shall not apply to the matters covered in Paragraph 3 hereof.

13. **Warranty of Title.** Lessor hereby warrants and agrees to defend Lessee's title hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If it exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made and, in addition to its other rights, may reimburse itself out of any rentals, royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of rentals, royalties and shut-in royalties hereunder until Lessee has been furnished satisfactory evidence that such claim has been resolved in Lessor's favor.

IN WITNESS WHEREOF, this lease is executed as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSOR (WHETHER ONE OR MORE)

Alice J. Dickey  
 SS#:

**ACKNOWLEDGEMENTS**

For use in Rocky Mountain States (Arizona, Colorado, Idaho, Montana, New Mexico, North Dakota, South Dakota, Wyoming, Utah)

State of Arizona

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared Alice J. Dickey

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 1995

My Commission Expires:

Notary Public

State of \_\_\_\_\_

INDIVIDUAL

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person or persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purpose therein set forth.

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_

My Commission Expires:

Notary Public

State of \_\_\_\_\_

CORPORATE

Before me, the undersigned Notary Public, personally appeared \_\_\_\_\_

known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be \_\_\_\_\_ of \_\_\_\_\_

Given under my hand and seal of office on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_

My Commission Expires:

Notary Public

State of \_\_\_\_\_

**RECORDING INFORMATION**

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_ at \_\_\_\_\_ o'clock, \_\_\_\_\_ M., and \_\_\_\_\_ Page \_\_\_\_\_ of the \_\_\_\_\_ records of this office.

By \_\_\_\_\_ (Deputy)

# MERIDIAN OIL

October 31, 1995

TO: WORKING INTEREST OWNERS

RE: Joint Operating Agreement  
T-10-S, R-38-E  
Section 30: E/2  
Lea County, New Mexico  
East Echols Prospect

Ladies and Gentlemen:

As of this date, Meridian Oil Inc. ("Meridian") has not consummated a lease/farmout of your mineral interest under the captioned. As a compulsory pooling hearing is set for November 2, 1995, enclosed for your review and execution is Meridian's proposed Joint Operating Agreement ("JOA") covering the captioned which has been prepared to cover operations pertaining to the Aunt Lula 30 #1. Also enclosed for your review is an AFE in the amount of \$820,000 to drill, complete and equip the Aunt Lula 30 #1, a 9900' Wolfcamp test located 1980' FSL and 660' FEL Section 30, T-10-S, R-38-E.

If you agree to participate in the drilling of said well, please execute the JOA and the AFE and return to the undersigned at your earliest convenience. If you should have questions concerning this matter, you may contact me directly at (915) 688-6928.

Very truly yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Encls.

cc: Charlotte Baysinger  
Paul Callaway  
Don Davis

## ADDRESS LIST:

Nations Geophysical, Inc.  
1031 Andrews Highway, Suite 207  
Midland, Texas 79701

Alice J. Dickey  
7608 B Shadow Mountain  
Paradise Valley, Arizona 85253

John J. Fleet, II  
Fleet Family Mineral Properties  
P. O. Box 25028  
Dallas, Texas 75225-1028

William B. Osborn, Jr.  
c/o W. B. Osborn Oil & Gas Operations  
P. O. Box 8C  
San Antonio, Texas 78217

W. B. Osborn, Jr., Trustee  
William B. Osborn, Jr. Trust  
c/o W. B. Osborn Oil & Gas Operations  
P. O. Box 8C  
San Antonio, Texas 78217

Betty Osborn Biedenhorn Estate  
c/o Osborn Heirs Company  
P. O. Box 17968  
San Antonio, Texas 78286

Betty Osborn Biedenhorn Trust  
c/o Osborn Heirs Company  
P. O. Box 17968  
San Antonio, Texas 78286

Midland Region  
 P.O. Box 51810  
 Midland, Texas 79710-1810  
 (915) 688-6800

Date: \_\_\_\_\_  
 AFE No.: \_\_\_\_\_

**MERIDIAN OIL INC.  
 AUTHORITY FOR EXPENDITURE**

Foreman Area Team Name Hobbs Foreman Area  
 DP No. 60016A

Lease/Well Name: Aunt Lula "30" #1 Lease No. \_\_\_\_\_  
 Field/Prospect: East Echols (Wolfcamp) Field Region: Midland  
 Location: 1,980' FSL & 660' FEL of Sec. 30, T10S - R38E County: \_\_\_\_\_ Lea \_\_\_\_\_ State: New Mexico  
 AFE Type: New Drill Well Original  Supplement \_\_\_\_\_ Addendum \_\_\_\_\_ Cost Center \_\_\_\_\_  
 API Well Type: Exp Operator Meridian Oil, Inc.  
 Objective Formation: Wolfcamp Authorized Total Depth (Feet) 9,900'  
 Project Description: Drill, complete and equip a Wolfcamp wildcat well in the East Echols field.

Est. Start Date: Nov. 15, 1995 Prepared By Chet A. Babin  
 Est. Completion Date: Nov. 30, 1995

**GROSS WELL COST DATA**

	DRILLING		WORKOVER	CONSTRUCTION	TOTAL
	DRY HOLE	SUSPENDED	COMPLETION	OR FACILITY	
DAYS:					
THIS AFE:	\$428,800	\$522,300	\$107,200	\$190,500	\$820,000
PRIOR AFE's:					
TOTAL COSTS:	\$428,800	\$522,300	\$107,200	\$190,500	\$820,000

**JOINT INTEREST OWNERS**

COMPANY	WORKING INTEREST PERCENT %	NET \$ EXPENDITURES	
		DRYHOLE \$	COMPLETED \$
OTHERS:	32.6389%	\$139,955	\$267,639
MERIDIAN OIL INC.:	67.3611%	\$288,845	\$552,361
AFE TOTAL:	100.0%	\$428,800	\$820,000

**MERIDIAN OIL APPROVAL**

Recommended: \_\_\_\_\_ Date: \_\_\_\_\_ Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
 Recommended: \_\_\_\_\_ Date: \_\_\_\_\_ Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
 Recommended: \_\_\_\_\_ Date: \_\_\_\_\_ Approved: \_\_\_\_\_ Date: \_\_\_\_\_

**PARTNER APPROVAL**

Company Name: \_\_\_\_\_ Authorized By: \_\_\_\_\_  
 Date: \_\_\_\_\_ Title: \_\_\_\_\_

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 1, 1995,

OPERATOR MERIDIAN OIL INC.

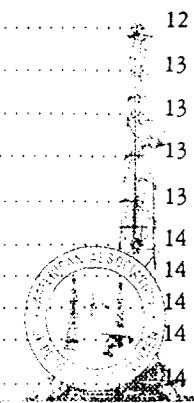
CONTRACT AREA T-10-S, R-38-E

Section 30: E/2

COUNTY OR PARISH OF Lea STATE OF New Mexico

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between MERIDIAN OIL INC., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.
F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

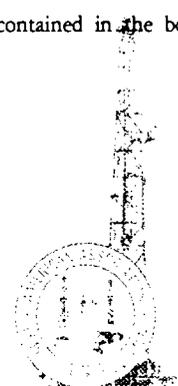
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- [X] A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to this agreement,
(2) Restrictions, if any, as to depths, formations, or substances,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.
[X] B. Exhibit "B", Form of Lease.
[X] C. Exhibit "C", Accounting Procedure.
[X] D. Exhibit "D", Insurance.
[X] E. Exhibit "E", Gas Balancing Agreement.
[ ] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
[ ] G. Exhibit "G", Tax Partnership.

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.



ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of one-eighth (1/8th) which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.  
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

ARTICLE IV  
continued

1  Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination  
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties  
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-  
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above  
5 functions.

6  
7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection  
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling  
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.  
10 This shall not prevent any party from appearing on its own behalf at any such hearing.

11  
12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above  
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-  
14 ticipate in the drilling of the well.

15  
16 **B. Loss of Title:**

17  
18 1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a  
19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days  
20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-  
21 tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil  
22 and gas leases and interests: and,

23 (a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be  
24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,  
25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

26 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has  
27 been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has oc-  
28 curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract  
29 Area by the amount of the interest lost;

30 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is  
31 increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such in-  
32 terest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such  
33 well;

34 (d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has  
35 failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties  
36 who bore the costs which are so refunded;

37 (e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be  
38 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

39 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest  
40 claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in  
41 connection therewith.

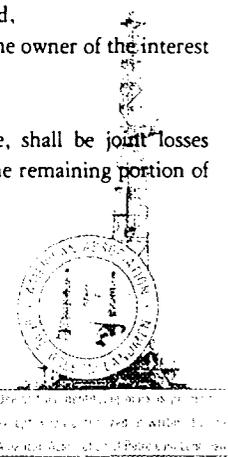
42  
43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well  
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,  
45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required  
46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,  
47 which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the  
48 date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in  
49 the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the  
50 required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to  
51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it  
52 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled  
53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

54 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis,  
55 up to the amount of unrecovered costs;

56 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of  
57 oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease  
58 termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said  
59 portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,

60 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest  
61 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

62  
63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses  
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
65 the Contract Area.



ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

Meridian Oil Inc. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

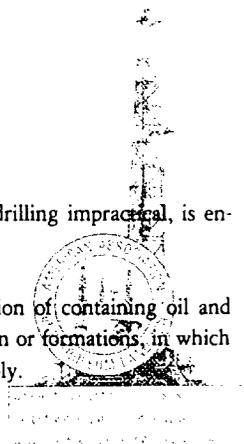
On or before the 1st day of December, 1995, Operator ~~shall~~<sup>may</sup> commence the drilling of a well for oil and gas at the following location:

Aunt Lula "30" #1 located 1980' FSL & 660' FEL Section 30, T-10-S, R-38-E, Lea County, New Mexico

~~and shall~~<sup>may</sup> thereafter continue the drilling of the well with due diligence to 9,900', or to a depth sufficient to test the Wolfcamp formation

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.



## ARTICLE VI

continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the  
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

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6 **B. Subsequent Operations:**

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8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided  
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all  
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-  
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice  
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-  
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be  
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within  
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or  
17 response given by telephone shall be promptly confirmed in writing.

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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice  
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-  
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-  
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,  
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain  
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-  
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the  
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and  
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-  
30 dance with the provisions hereof as if no prior proposal had been made.

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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option  
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties  
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of  
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is  
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all  
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is  
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-  
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-  
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-  
43 ditions of this agreement.

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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable  
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as  
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours  
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-  
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and  
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for  
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,  
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have  
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such  
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.  
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their  
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-  
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,  
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ARTICLE VI

continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

9  
10  
11  
12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

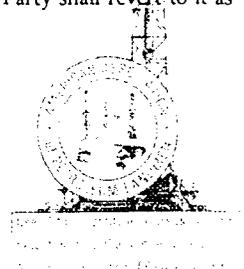
18  
19  
20  
21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

25  
26  
27  
28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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38  
39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

43  
44  
45  
46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

50  
51  
52  
53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.



ARTICLE VI  
continued

1 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above,  
2 the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-  
3 Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production  
4 therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging  
5 back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of  
6 the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

7  
8  
9  
10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall  
11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such  
12 well conforms to the then-existing well spacing pattern for such source of supply.

13  
14  
15  
16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.  
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well  
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-  
19 duction, ceases to produce in paying quantities.

20  
21  
22  
23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been  
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a  
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepen-  
26 ing operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever  
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-  
28 matical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently  
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion  
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-  
31 ties.

32  
33  
34  
35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall  
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole  
37 location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other  
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the  
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal  
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

41  
42  
43  
44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in  
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

46  
47  
48  
49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's  
50 salvageable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the  
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

52  
53  
54  
55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period  
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and  
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time  
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-  
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-  
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-  
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

62  
63  
64  
65 **C. TAKING PRODUCTION IN KIND:**

66  
67 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,  
68 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for  
69 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any  
70 party of its proportionate share of the production shall be borne by such party. ~~Any party taking its share of production in kind shall be~~

ARTICLE VI

continued

~~required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.~~

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information. Notwithstanding anything to the contrary, a non-operator who is in default under Article VII.B. shall have no rights under this Article VI.D.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit



ARTICLE VI

continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the  
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the  
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of  
4 interests in the remaining portion of the Contract Area.

5  
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from  
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-  
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned  
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to  
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-  
12 visions hereof.

13  
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between  
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be  
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified  
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article  
18 VI.E.

19  
20 ARTICLE VII.

21 EXPENDITURES AND LIABILITY OF PARTIES

22  
23 A. Liability of Parties:

24  
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and  
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted  
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor  
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29  
30 B. Liens and Payment Defaults:

31  
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share  
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon  
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the  
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-  
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share  
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from  
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each  
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien  
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42  
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by  
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that  
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain  
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47  
48 C. Payments and Accounting:

49  
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development  
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-  
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,  
53 showing expenses incurred and charges and credits made and received.

54  
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance  
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding  
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together  
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted  
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within  
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount  
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-  
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63  
64 D. Limitation of Expenditures:

65  
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened  
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII  
continued

1  Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including  
2 necessary tankage and/or surface facilities.

3  
4  Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its  
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice  
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight  
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-  
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-  
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall  
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,  
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging  
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less  
13 than all parties.

14  
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or  
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall  
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage  
18 and/or surface facilities.

19  
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated  
21 to require an expenditure in excess of Thirty Thousand Dollars (\$30,000.00)  
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been  
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required  
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other  
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting  
27 an information copy thereof for any single project costing in excess of Twenty-Five Thousand  
28 Dollars (\$25,000.00) but less than the amount first set forth above in this paragraph.

29  
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31  
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the  
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-  
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on  
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of  
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-  
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-  
38 visions of Article IV.B.3,

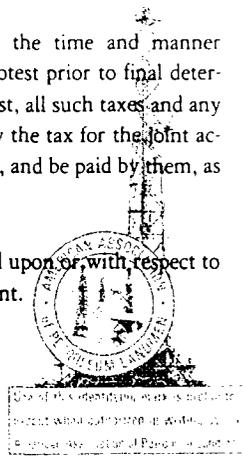
39  
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production  
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by  
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify  
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment  
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45  
46 **F. Taxes:**

47  
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property  
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they  
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not  
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-  
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-  
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or  
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-  
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding  
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax  
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in  
58 the manner provided in Exhibit "C".

59  
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner  
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-  
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any  
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-  
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as  
65 provided in Exhibit "C".

66  
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to  
68 the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.



ARTICLE VII

continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII  
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be  
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions  
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-  
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5  
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8  
9 **D. Maintenance of Uniform Interest:**

10  
11 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no  
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,  
13 equipment and production unless such disposition covers either:

- 14 1. the entire interest of the party in all leases and equipment and production; or
- 15 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

16  
17 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
18 and shall be made without prejudice to the right of the other parties.

19  
20 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may  
21 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for  
22 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such  
23 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter  
24 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract  
25 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

26  
27  
28  
29 **E. Waiver of Rights to Partition:**

30  
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided  
33 interest therein.

34  
35 ~~**F. Preferential Right to Purchase:**~~

36  
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~  
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~  
40 ~~of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase~~  
41 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~  
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~  
43 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~  
44 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~  
45 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46  
47 **ARTICLE IX.**  
48 **INTERNAL REVENUE CODE ELECTION**

49  
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-  
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the  
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-  
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
66 computation of partnership taxable income.



ARTICLE X.  
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifteen Thousand Dollars (\$15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or suit against all parties hereto.

ARTICLE XI.  
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.  
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

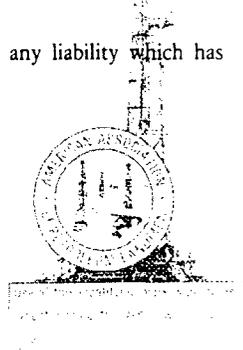
ARTICLE XIII.  
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of -120- days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within -120- days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.



ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.  
OTHER PROVISIONS

A. SUBSTITUTE WELL

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of Operator, to drill the well to the Objective Depth, then, and in any of such events, on or before sixty (60) days after plugging, abandonment or cessation of drilling of the Initial Well, Operator shall have the option to commence the actual drilling of another well (Substitute Well) at a lawful location of Operator's selection on the Contract Area and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this Agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

B. PRIORITY OF OPERATIONS

Notwithstanding any provisions to the contrary in article VI.B., whenever there is more than one proposal in connection with any well subject to this Agreement, such proposals shall be considered and disposed of in the following order of priority:

1. Drilling the well to its objective depth.
2. Attempting a completion at the objective depth, including testing and logging of such depth.
3. A proposal to plug back a well shall prevail over a proposal to deepen such well which has reached its objective depth; if there is more than one proposal to plug back, the

proposal to plug back to the next deepest prospective interval shall have priority over a proposal to plug back to a shallower prospective interval.

4. A proposal to deepen a well shall have last priority; and proposals of the same type and to the same depth shall be given precedence in order in which they were made.

#### C. REGULATORY EXPENSES

Notwithstanding anything to the contrary contained in this Operating Agreement or the Accounting Procedure (Exhibit "C"), the following items pertaining to the Contract Area shall not be considered as Administrative Overhead, but Operator shall be entitled to make a direct charge against the joint account for same:

Fees for legal services, title costs, costs and expenses in connection with preparations and presentations of evidence and exhibits at Governmental Regulatory hearings, preparation and handling of application to and hearings before the Federal Energy Regulatory Commission and other governmental agencies or regulatory bodies.

#### D. RELEASE FROM LOSSES

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

#### E. EXECUTION OF DOCUMENTS

This Agreement shall be binding upon Operator and each Non-Operator when this Agreement or counterpart thereof has been executed by any such Non-Operator and the Operator notwithstanding that this Agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. The failure of any party to execute this Agreement shall not render it ineffective as to any party which does execute the same. This Agreement also may be ratified by separate instrument referring hereto, each of which shall have the effect of the original Agreement and of adopting by reference all of the provisions herein contained.

It is not the intent of the parties that any provision herein violate any applicable law regarding the rule against perpetuities, the suspension of an absolute power of alienation or other rule regarding the vesting or duration of estates, and this Agreement shall be construed as not violating such rule to the extent that same can be so construed consistent with the intent of the parties. In the event, however, any such provision hereof is determined to violate such rule, then such provision shall nevertheless be effective for the maximum period (but not longer than the maximum period) permitted by such rule which will result in no violation. If any provision herein is rendered invalid, inoperative or illegal, all other provisions shall continue to be operative and effective as far as possible and reasonable.

This Agreement is made solely for the benefit of those persons who are the signatory parties hereto (including those persons succeeding to all or a part of the interest of an original party if such succession is recognized under the other provisions hereof), and no other person or third party shall have or claim or be entitled to enforce any rights, benefits or obligations under this Agreement.

ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of November, 1995.

OPERATOR

MERIDIAN OIL INC.

\_\_\_\_\_  
Dennis Sledge, Attorney-in-Fact

NON-OPERATORS

NATIONS GEOPHYSICAL, INC.

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

\_\_\_\_\_  
Alice J. Dickey

\_\_\_\_\_  
John J. Fleet, II  
BETTY OSBORN BIEDENHORN ESTATE

\_\_\_\_\_  
William B. Osborn, Jr.  
WILLIAM B. OSBORN, JR., TRUST

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

By: \_\_\_\_\_  
William B. Osborn, Jr., Trustee

BETTY OSBORN BIEDENHORN TRUST

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

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## EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated November 1, 1995, by and between Meridian Oil Inc., Operator, and Nations Geophysical, Inc., et al, Non-Operators

### I. CONTRACT AREA AND DEPTH LIMITATION

T-10-S, R-38-E

Section 30: E/2

limited in depth from the surface of the earth to 100' below total depth drilled in the initial well

### II. INTERESTS OF THE PARTIES TO THIS AGREEMENT AND ADDRESSES FOR NOTIFICATION PURPOSES

	<u>WI %</u>	<u>NRI %</u>
Nations Geophysical, Inc. 1031 Andrews Highway, Suite 207 Midland, Texas 79701	12.50000	9.37500
Alice J. Dickey 7608 B Shadow Mountain Paradise Valley, Arizona 85253	6.25000	5.46875
John J. Fleet, II Fleet Family Mineral Properties P. O. Box 25028 Dallas, Texas 75225-1028	4.16667	3.64583
William B. Osborn, Jr. c/o W. B. Osborn Oil & Gas Operations P. O. Box 8C San Antonio, Texas 78217	2.77778	2.08333
W. B. Osborn, Jr., Trustee William B. Osborn, Jr. Trust c/o W. B. Osborn Oil & Gas Operations P. O. Box 8C San Antonio, Texas 78217	2.08333	1.5625
Betty Osborn Biedenhorn Estate c/o Osborn Heirs Company P. O. Box 17968 San Antonio, Texas 78286	2.77778	2.43054
Betty Osborn Biedenhorn Trust c/o Osborn Heirs Company P. O. Box 17968 San Antonio, Texas 78286	2.08333	1.82291

### III. OIL AND GAS LEASES/FARMOUTS SUBJECT TO THIS AGREEMENT

Lessor:	George W. Horst
Lessee:	Meridian Oil Inc.
Lease Date:	September 12, 1995
Acreage Covered:	E/2 Section 30, T-10-S, R-38-E
Contribution:	MOI - 100%

Lessor: Patsy Mancini  
Lessee: Meridian Oil Inc.  
Lease Date: September 12, 1995  
Acreage Covered: E/2 Section 30, T-10-S, R-38-E  
Contribution: MOI - 100%

Lessor: David Mauldin  
Lessee: Meridian Oil Inc.  
Lease Date: October 5, 1995  
Acreage Covered: E/2 Section 30, T-10-S, R-38-E  
Contribution: MOI - 100%

Lessor: Don E. Birdwell  
Lessee: Meridian Oil Inc.  
Lease Date: August 21, 1995  
Acreage Covered: E/2 Section 30, T-10-S, R-38-E  
Contribution: MOI - 100%

Lessor: Sugarberry Oil & Gas Corporation and  
Global Natural Resources Corporation of Nevada  
(routing for execution)  
Lessee: Meridian Oil Inc.  
Lease Date: To be determined  
Acreage Covered: E/2 Section 30, T-10-S, R-38-E  
Contribution: MOI - 100%

Lessor: Barrett Oklahoma Interests, Ltd.  
(routing for execution)  
Lessee: Meridian Oil Inc.  
Lease Date: November 1, 1995  
Acreage Covered: E/2 Section 30, T-10-S, R-38-E  
Contribution: MOI - 100%

Farmor: Frank O. Elliott, Trustee and  
Edna Ione Hall, Trustee  
Farmer: Meridian Oil Inc.  
Dated: October 1, 1995  
Acreage Covered: E/2 Section 30, T-10-S, R-38-E  
Contribution: MOI - 100%

Attached to and made a part of that certain Operating Agreement dated  
November 1, 1995, by and between Meridian Oil Inc., as Operator,  
and Nations Geophysical, Inc., et al, as Non-Operators

**OIL AND GAS LEASE**

THIS LEASE AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_ between \_\_\_\_\_

\_\_\_\_\_ as Lessor (whether one or more) and

\_\_\_\_\_ as Lessee. All printed portions of this lease were prepared by  
the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

**1 Description.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants exclusively to Lessee the following described land (use attachment for long descriptions):

in the County of \_\_\_\_\_, State of \_\_\_\_\_ containing \_\_\_\_\_ acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered.

**2 Term of Lease.** This lease shall be in force for a primary term of \_\_\_\_\_ years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

**3 Rental Payment.** If on or before the first anniversary date hereof operations for the drilling of a well for oil or gas or other substances covered hereby have not been commenced on the leased premises or land pooled therewith, or if there then is no production in paying quantities from the leased premises or land pooled therewith, then subject to Paragraph 5 below this lease shall terminate as to both parties unless Lessee on or before that date pays to Lessor or to Lessor's credit in the \_\_\_\_\_

Bank at \_\_\_\_\_, or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land, the sum of \$\_\_\_\_\_ as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of twelve months from said anniversary date. In like manner and upon like payments, the commencement of operations for the drilling of a well may be further deferred for one or more twelve-month periods during the primary term of this lease. All payments may be made by check or draft mailed or delivered on or before the rental payment date. If the depository bank should liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental payment hereunder, Lessee shall not be held in default for failure to make such payment unless Lessor has delivered to Lessee a proper recordable instrument naming another bank as depository agent to receive payments and Lessee has failed to make such payment within 60 days after receipt of such notice. It is agreed that the cash bonus consideration first recited above covers not only the right to defer drilling during the first year of this lease, but also all subsequent deferrals of drilling as aforesaid, along with all other rights of Lessee hereunder. If on or before any rental payment date Lessee in good faith makes an erroneous rental payment by paying the wrong person, the wrong depository, or the wrong amount, Lessee shall be unconditionally obligated to make proper rental payment for the period involved and this lease shall continue in effect as though such rental payment had been properly made, provided that proper rental payment shall be made within 30 days after receipt by Lessee of written notice of the error from Lessor, accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

**4 Royalty Payment.** Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the Lessee's oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same or nearest field for production of similar grade and gravity; (b) For gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the costs incurred by Lessee in delivering, compressing, processing or otherwise making such gas or other substance merchantable, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same or nearest field pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) If a well on the leasehold premises or lands pooled therewith is capable of producing gas (including casinghead gas) but such well is either shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor, and if this lease is not otherwise maintained in effect, such well shall nevertheless be considered as though it were producing gas in paying quantities for the purpose of maintaining this lease, whether during or after the primary term, if Lessee pays shut-in royalty of One Dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository bank designated above, on or before the next ensuing anniversary date of this lease, or within 90 days after such anniversary date, and thereafter on or before each anniversary date hereof while the well is shut-in or production therefrom is not being sold or purchased by Lessee or royalties on production therefrom are not otherwise being paid to Lessor. For the purpose of calculating shut-in royalties, the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

**5 Operations.** If Lessee drills a well incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if production in paying quantities permanently ceases from any cause, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of production, or, should the lease be within the primary term, if Lessee pays rental on or before the next rental payment date (if any) next ensuing after the expiration of said 90-day period; provided that should completion of operations on the dry hole or cessation of production occur less than 90 days before the last rental payment date, no rental payments or further operations shall be required to maintain this lease for the remainder of the primary term. If at the end of the primary term or at any time thereafter this lease is not otherwise being maintained in force, it shall nevertheless remain in force as long as Lessee, without an interruption of more than 90 consecutive days, engages in drilling, reworking or any other operations reasonably calculated to obtain or restore production on the leased premises or lands pooled therewith, and, if such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities.

**6 Pooling.** Lessee shall have the right but not the obligation to pool all or part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to oil or gas or both, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well shall not exceed 640 acres plus a maximum acreage tolerance of 10%, except that larger units may be formed for oil wells or gas wells to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction. To exercise its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production produced and saved which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. The restrictions and requirements of this Paragraph 6 shall not apply to compulsory pooling of interest effected by operation of law or by order of any governmental authority having jurisdiction, but all other references to pooling contained in this lease shall include such compulsory pooling as well as pooling effected under this Paragraph 6.

**7 Lessor Interest.** If Lessor owns less than the entire and undivided mineral estate in the above-described land or any portion thereof, the royalties, shut-in royalties and rentals herein provided shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided mineral estate in said land or portion thereof. Any interest in the production from the lands herein described to which the interest of Lessor may be subject, shall be deducted from the royalty herein reserved.

**8 Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 45 days after Lessee has been furnished the originals or certified copies of the documents effecting such change, or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order, which Lessor hereby agrees to execute prior to the payment of royalties hereunder. In the event of the death of any person entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to the credit of decedent or decedent's estate in the depository bank designated above. If at any time two or more persons are entitled to rentals or shut-in royalties hereunder, Lessee may pay such rentals or shut-in royalties to such persons or to their credit in the depository bank, either jointly, or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to the interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay rental hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

**9 Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligations to pay rentals and shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder, and for such purpose the number of lease acres described in Paragraph 1 shall be deemed correct, whether actually more or less.

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated November 1, 1995, by and between Meridian Oil Inc., as Operator, and Nations Geophysical, Inc., et al, as Non-Operators

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Texas Commerce Bank, Houston, Texas on the first day of the month in which delinquency occurs plus 2% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

## 5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

## 6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

### 2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

### 3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

### 4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

### 5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

### 6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

#### 7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

#### 8. Equipment and Facilities Furnished By Operator

~~A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed \_\_\_\_\_ percent (\_\_\_\_%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.~~

- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

#### 9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

#### 10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

#### 11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

#### 12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

#### 13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

#### 14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

#### 15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

### III. OVERHEAD

#### 1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or  
 ( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or  
 (X) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or  
 (X) shall not be covered by the overhead rates.

#### A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 5,000  
 (Prorated for less than a full month)

Producing Well Rate \$ 500

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

##### (a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

##### (b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

#### ~~B. Overhead - Percentage Basis~~

- ~~(1) Operator shall charge the Joint Account at the following rates:~~

~~(a) Development~~~~\_\_\_\_\_ Percent ( \_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~~~(b) Operating~~~~\_\_\_\_\_ Percent ( \_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~~~(2) Application of Overhead - Percentage Basis shall be as follows:~~~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.~~

## 2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ \_\_\_\_\_ :

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

## 3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

## 4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

## IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

## 1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

## 2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

## A. New Material (Condition A)

## (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 $\frac{3}{8}$  inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 $\frac{3}{8}$  inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

## (2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and  $\frac{3}{4}$  inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

## B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

## (1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

## (2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

## (3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

## C. Other Used Material

## (1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

**"ONSHORE"**

**EXHIBIT "D"**

Attached to and made a part of that certain Operating Agreement dated November 1, 1995,  
between Meridian Oil Inc., as Operator, and Nations Geophysical, Inc., et al, as Non-Operators

**INSURANCE**

To protect against liability, loss or expense arising from damage to property, injury or death of any person or persons, incurred out of, in connection with, or resulting from the operations provided hereunder, Operator shall maintain in force during the entire period of this agreement the following Schedule A insurance coverage for the benefit of the joint account. Schedule B coverages are the minimum limits and type of insurances required to be maintained by Operator and each Non-Operator as to their respective working interest. All Schedule A and Schedule B insurance shall be obtained from financially sound, Best rate B+ Class VI or above reliable insurance companies authorized to do business in the state in which the operations are to be performed. Each policy shall provide for a waiver of subrogation rights against the other signatory parties.

**SCHEDULE A - OPERATOR FOR THE JOINT ACCOUNT**

<b><u>COVERAGES</u></b>	<b><u>LIMITS OF LIABILITY</u></b>
a. Workers' Compensation	Statutory
b. Employers' Liability	Combined Single Limit Per occurrence of \$1,000,000.

**SCHEDULE B - OPERATOR AND EACH NON-OPERATOR AS TO ITS WORKING INTEREST**

Each working interest owner's insurance is intended to cover such owner's working interest in the Joint Account and its coverages respond to such owner's pro-rata share of any Joint Account loss.

<b><u>COVERAGES</u></b>	<b><u>LIMITS OF LIABILITY</u></b>
a. Comprehensive General Liability including Personal Injury, Premises/ Operations coverage, Owners and Contractors Protective Liability, Contractual Liability, Products and Completed Operation Liability	
Bodily Injury Liability/ Property Damage Liability	Combined Single Limit Per occurrence of \$5,000,000
b. Comprehensive Automobile Liability including coverage of Owned and Non-Owned Automobiles and Hired Car coverage	
Bodily Injury Liability/ Property Damage Liability	Combined Single Limit Per occurrence of \$5,000,000
c. Control of Well including Clean-Up Containment, Seepage, Pollution, Contamination, and Redrilling Expense	Per occurrence of each working interest owner's share of \$20,000,000, but not less than

(This coverage is maintained while drilling from spudding to completion.)

\$1,000,000

**COVERAGES**

**LIMITS OF LIABILITY**

**EXAMPLE:** A Non-Operator owning a 20% working interest in the Joint Account properties is required to carry a minimum of 20% x \$20,000,000 or \$4,000,000 Control of Well coverage, but a 4% Working Interest Owner is required to carry a minimum of \$1,000,000 coverage.

**Note:** If a Non-Operator elects not to purchase Control of Well coverage direct to protect his working interest, he may elect to participate in Operator's coverage at a premium rate heretofore determined by Operator and available to all Non-Operators upon request.

- |    |   |   |
|----|---|---|
| d. | If Aircraft, including helicopters, are used in operations, include Aircraft Liability, Passenger Liability and Property Damage Liability Insurance covering Owned, Non-Owned Aircraft and Hired Aircraft   | Combined Single Limit<br>Per occurrence of \$5,000,000  |
| e. | If Watercraft are used in any inland operations:<br>(a) Protection and Indemnity Insurance on the SP23 form or equivalent, (or, in the alternative, deletion of the watercraft exclusion from the Comprehensive General Liability Policy)<br><br>(b) Hull and Machinery Insurance to the market value of the vessel or \$1,000,000, whichever is greater, on the American Institute Hull Clause (June 2, 1977) form or its equivalent | Combined Single Limit<br>Per occurrence of \$10,000,000 |
| f. | Property (excluding Business Interruption)  | Blanket limit   |

Operator may include the Schedule A coverage for the joint account under its self insurance program provided Operator complies with applicable laws, and in such an event Operator shall charge to the Joint Account manual rate premiums.

Operator, as a working interest owner, shall also obtain for his own account the minimum insurances and limits required by Schedule B. These insurances obtained by Operator and Non-Operators will respond to a loss on a pro-rata working interest basis, and not as primary, to any other valid and collectible insurances. Non-Operators will not be additional insurers on Operator's policy unless specifically agreed to by Operator and the appropriate premium charged

## EXHIBIT E

### GAS BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated November 1, 1995,  
between Meridian Oil Inc., as Operator, and  
Nations Geophysical, Inc., et al, as Non-Operators

1. In accordance with the terms of the Operating Agreement to which this Agreement is attached, each party shall take its share of oil and gas in kind and separately dispose of its proportionate share of the oil and gas produced from the wells on the leases within the Contract Area. In the event any party hereto fails, or is unable, to take and market its share of the gas as produced for any reason, the terms of this Agreement shall automatically become effective.

2. As long as any gas produced from any of said wells is subject to the regulations of the Federal Energy Regulatory Commission (FERC), or any successor governmental authority, under any section of the Natural Gas Act, the Natural Gas Policy Act of 1978 (NGPA), or other statutory authority, which establishes maximum lawful prices for the gas, each party should receive its allocated share of the category of gas in accordance with its interest in production from said well. It is the intent of this Agreement that balancing of gas taken will be based upon the allocated volumes of each category of gas. Any deregulated gas shall be treated as a separate category for purposes of balancing.

3. During any period or periods when a party fails, or is unable, to take and market its full share of gas produced, each of the other parties shall be entitled to but not obligated to, take and deliver to its purchaser its proportionate part of all of such gas production not taken by others. Each party failing to take or market its full share of the gas as produced shall be considered underproduced by a quantity of gas equal to its share of the gas produced from the lease, less such party's share of the gas taken by such party or in behalf of such party, vented, lost, or used in lease operations. Those parties which are capable of taking and marketing the underproduced quantity of gas allocable to an underproduced party, in the absence of any other agreement between them, shall each take a share of the gas attributed to each underproduced party in the direct proportion that said producing party's interest bears to the total interest of all parties taking underproduced gas and each of said producing parties shall be considered to be overproduced. All gas (including overproduction or make-up) taken and marketed by a party in accordance with the terms of this Agreement, regardless of whether such party is underproduced or overproduced, shall be regarded as gas taken for its own account with title thereto being in such party.

4. All parties hereto shall share in and own the liquid hydrocarbons recovered from all gas by primary separation equipment prior to processing in a gas plant in accordance with their respective interests as specified in the above described Operating Agreement, whether or not such parties are actually producing and marketing gas at such time.

5. The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities of gas each party is entitled to receive and the quantities of gas taken and marketed by each of the parties. For the sole purpose of implementing the terms of this Agreement and adjusting gas imbalances which may occur, each party disposing of gas from the lease in any month, to the extent required, shall furnish or cause to be furnished to the Operator by the last day of each calendar month a statement showing the total volume of gas sold by such party or taken in kind for its own account during the preceding calendar month (the "report period"). Within sixty (60) days after the end of each report period, the Operator shall furnish each party a statement showing the status of the overproduced and underproduced accounts of all parties. All gas volumes under this paragraph will be identified by the appropriate category provided under the NGPA or any other law or regulation in effect. In the event deregulation occurs, the gas volumes will be identified additionally in that category. Each

party to this Gas Balancing Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

6. Any party who is underproduced as to a given category of gas shall endeavor to bring its taking of gas of that category into balance. After written notice to the Operator, any party may begin taking and delivering to its purchaser(s) its full share of each category of gas produced. To allow for the recovery and make up of underproduced gas in a category and to balance the gas account for the interests, the underproduced party or parties for a category of gas shall after written notice to the Operator, also be entitled to take up to an additional fifty percent (50%) of the monthly quantity of that category of gas attributable to each overproduced party. In the event there is more than one underproduced or overproduced party, unless otherwise agreed, each underproduced and overproduced party's share of make-up gas shall be in the direct proportion of its interest to the total interests of all underproduced or overproduced parties taking or furnishing make-up gas. The first gas made up shall be assumed to be the first gas underproduced.

7. If at the termination of gas production of a given category of gas, an imbalance exists between the parties, a monetary settlement of the imbalance between the parties shall be made within a reasonable length of time after such gas production permanently ceases. The amount of the monetary settlement will be limited to the proceeds actually received by each overproduced party at the time of overproduction, less royalties and taxes paid on such overproduction. If an overproduced party did not sell its gas but otherwise utilized such gas in its own operations, such gas will be valued at the maximum price which the overproduced party could have received for such gas at the time of overproduction under such party's sales contract, or, if none, the weighted average price received by all other parties for their gas sold at that time. That portion of the monies collected by each overproduced party which is subject to refund by orders of the FERC, may be withheld by the overproduced party until such prices are fully approved by the FERC, unless each underproduced party furnishes a bond or corporate undertaking agreement acceptable to the overproduced party to hold the overproduced party harmless from financial loss due to orders by the FERC.

8. Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in operations, as its share thereof is set forth in the above described Operating Agreement.

9. Each party shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually utilized or sold for its own account.

10. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full well stream for a period not to exceed seventy-two (72) hours to meet the deliverability test required by its purchaser.

11. The parties recognize that at some time after the date of this Agreement, legislation, judicial decision(s) or executive action may cause part or all of the then remaining gas reserves subject to this Agreement to be deregulated and no longer be subject to Federal price regulation. If in such an event an imbalance exists between the parties as to a given category of gas which is deregulated, a monetary settlement of such imbalance between the parties shall be made. The amount of the monetary settlement will be limited to the proceeds actually received by each overproduced party at the time of overproduction, less royalties and taxes paid on such overproduction, up to and including the date deregulation occurs. After such monetary settlement has been fully made for any imbalance that existed for a given category of gas on the date of price deregulation, this Agreement shall continue to apply to all gas produced from lands covered by the Operating Agreement.

12. Nothing herein shall be construed as ever altering, amending or negating any agreement heretofore entered into by any party hereto obligating such party to pay any overriding royalty, payment out of production or royalties payable under any lease out of its interest regardless of whether such party is or is not taking or selling its full share of production.

LARGE FORMAT  
EXHIBIT HAS  
BEEN REMOVED  
AND IS LOCATED  
IN THE NEXT FILE

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**MERIDIAN OIL INC.  
DRILLING WELL COST ESTIMATE**

LEASE WELL: Caddell "29" No. 1 PREPARED BY: T. J. Friesenhahn DATE: 7-19-95  
 COUNTY/STATE: Lea / New Mexico APPROVED BY: H. A. Lee DATE: 7/19/95  
 PROPOSED TOTAL DEPTH: 9,900 AFE TYPE: DEVELOPMENT DRILLING  
 FOOTAGE TOTAL DEPTH: 9,900

ACCT	AFE NOMENCLATURE	DRYHOLE COST	SUSPENDED COST
248-	<b>INTANGIBLE DRILLING COSTS</b>	25	25
		25	25
2	Environmental Studies	\$1,200	\$1,200
3	Construction (location, roads, etc)	\$35,000	\$35,000
4	Surface restoration		
5	Move in, move out		
6	Contractor Fees-Footage; \$/ foot: <u>\$17.70</u>	\$175,200	\$175,200
7	Contractor Fees-Daywork; \$/day: <u>\$4,800.00</u>	\$28,800	\$28,800
8	Environmental fire and safety	\$4,400	\$4,400
9	Drilling fluids	\$12,000	\$12,000
10	Gas and Air Drilling		
11	Drilling fluids - Processing & Maint. equip		
12	Specialty fluids and chemicals		
13	Engineering services-fluids and chemicals		
14	Salt/brine water	\$4,800	\$4,800
15	Salt water disposal		
16	Water	\$8,900	\$8,900
17	Bits, reamers and stabilizers		
18	Primary cement, services and accessories	\$44,000	\$68,000
19	Squeeze cement, services and accessories		
20	Mud logging/paleo	\$9,000	\$9,000
21	Wireline logging	\$17,000	\$17,000
22	Coring and analysis		
23	Fuel		
24	BOP's and wellhead rentals - surface	\$800	\$800
25	Drill/work string rentals - subsurface		
26	Fishing tool rentals		
27	Tank rentals		
28	Other rentals		
29	Transportation	\$5,900	\$11,800
30	Disposal services (offsite)		
31	Drill stem tests	\$10,000	\$10,000
32	Directional drilling		
33	Tubular inspection	\$1,400	\$3,100
34	Cased hole logs	\$700	\$700
40	Casing crews and laydown services		
43	Consultants		
45	Roustabout and contract labor	\$2,000	\$2,000
46	Miscellaneous	\$1,000	\$1,000
62	Environmental compliance		
72	Company supervision and overhead	\$12,500	\$12,500

**BEFORE THE  
OIL CONSERVATION DIVISION**  
 Case No. 11417 Exhibit No. 11  
 Submitted By:  
**MERIDIAN OIL, INC.**  
 Hearing Date: November 2, 1995

**TOTAL INTANGIBLE COST** \$374,600 \$406,200

**TANGIBLE DRILLING COST**

80	Casing		
	450 ft. @ 13 3/8 in. \$17.50 /ft (SURFACE)	\$7,900	\$7,900
	4,400 ft. @ 8 5/8 in. \$9.85 /ft (INTERMEDIATE)	\$43,300	\$43,300
	9,900 ft. @ 5 1/2 in. \$5.75 /ft (PRODUCTION)		\$56,900
	ft. of in. /ft (LINER)		
82	Downhole equipment (packers, bridge plugs)		
84	Downhole equipment accessories		
86	Wellhead equipment	\$3,000	\$8,000
87	Miscellaneous		

**TOTAL TANGIBLE COST** \$54,200 \$116,100

**TOTAL DRILLING COST ESTIMATE** \$428,800 \$522,300

**MERIDIAN OIL INC.  
WELL COST ESTIMATE**

**COMPLETION**

LEASE/WELL NAME: East Echols NDW      PREPARED BY: David Chapman      DATE: \_\_\_\_\_  
 LEASE/WELL TYPE: East Echols(Wolfcamp)Field      APPROVED BY: \_\_\_\_\_      DATE: \_\_\_\_\_  
 AFE TYPE: New Well Completion      COST CENTER: \_\_\_\_\_

ACCOUNT NO:

COMP	WORK	AFE NOMENCLATURE	BUDGET
249	244	<b>INTANGIBLE COSTS</b>	<b>7 Days</b>
02	02	Location, Roads or Canals (Pre-Constr.) .....	
03	03	Location, Roads or Canals - Construction and Maintenance .....	\$2,000
04	04	Location, Roads or Canals - (Surface Restoration) .....	
05	05	Move-in, Move-out.....	
06	06	Fees of Contractor - Footage ( _____ \$/FT) .....	
07	07	Fees of Contractor - Daywork and Completion Rig ( _____ \$1,600/Day) .....	\$11,200
08	08	Fire and Safety Equipment .....	
09	09	Drilling Fluid Systems - Liquids .....	
10	10	Drilling Fluid Systems - Gas and Air Drilling .....	
11	11	Drilling Fluid Systems - Processing and Maintenance .....	
12	12	Fluids and Chemicals - Specialty Fluids .....	
14	14	Salt/Brine Water .....	\$2,500
15	15	Onsite Disposal Services .....	
16	16	Fresh Water .....	
17	17	Bits .....	\$1,500
18	18	Primary Cement, Cement Services, & Acces .....	
19	19	Remedial Cementing .....	
20	20	Mud Logging .....	
21	21	Wireline Logging - Open Hole .....	
22	22	Coring and Analysis .....	
23	23	Fuel/Electricity .....	
24	24	BOP's and Wellhead Rentals (Surface) .....	\$2,500
25	25	Drill/Work String Rentals (Subsurface) .....	\$3,000
26	26	Fishing Tool Rentals.....	
27	27	Tanks Rentals .....	\$2,500
28	28	Other Rentals.....	\$3,500
29	29	Transportation.....	\$1,200
30	30	Offsite Disposal Services.....	\$3,500
31	31	Drill Stem Tests .....	
32	32	Directional Services .....	
33	33	Tubular Inspection .....	
34	34	Cased Hole Services 100 shots & CBL .....	\$5,600
36	36	Production Testing.....	\$3,000
37	37	Swabbing and Coiled Tubing.....	
38	38	Stimulation 7500 gal & 250 gal pickle.....	\$14,000
39	39	Fracturing.....	
40	40	Casing Crews and Laydown .....	
41	41	Gravel Pack/Sand Control .....	
42	42	BOP Testing .....	
43	43	Consultants .....	
44	44	Technical Contract Services.....	\$1,000
45	45	Roustabout Labor .....	\$1,500
46	46	Miscellaneous .....	\$2,000
48	48	Communication Systems.....	
49	49	Packer Rental .....	\$2,000
50	50	Pumping Charges .....	
62	62	Environmental Compliance - Assessment .....	
63	63	Environmental Compliance - Remediation .....	
65	65	Company Vehicles .....	
68	68	Direct Labor .....	
72	72	Company Supervision and Overhead .....	\$7,000
		<b>TOTAL INTANGIBLES .....</b>	<b>\$69,500</b>
		<b>TANGIBLE COSTS</b>	
80	80	Casing .....	
81	81	Tubing & Tiebacks .....	\$36,000
		( _____ 9,900 _____ ft. _____ 2 7/8 _____ in. _____ \$3.60/ft)	
		( _____ ft. _____ in. _____ \$/ft)	
		( _____ ft. _____ in. _____ \$/ft)	
82	82	Packers and Bridge Plugs .....	
84	84	Casing/Liner Equipment .....	
85	85	Tubing Equipment.....	\$1,700
86	86	Wellhead Equipment and Xmas Tree .....	
		<b>TOTAL TANGIBLE .....</b>	<b>\$37,700</b>
		<b>TOTAL COMPLETION .....</b>	<b>\$107,200</b>

REV. 4/94

**WELL COST ESTIMATE  
FACILITIES / PRODUCTION FACILITIES**

LEASE/WELL NAME: Caddell 29 # 1 (East Echols) PREPARED BY: J. R. LaPlante DATE: 7/3/95  
 COUNTY/STATE: Lea County, New Mexico PREPARED BY: Bill Rea DATE: 7/6/95  
 AFE TYPE: (06) Capital Facilities APPROVED BY: \_\_\_\_\_  
 PROPOSED TD: 9,900' Wolfcamp  
 JOB SCOPE: NDW facilities

ACCOUNT NO: \_\_\_\_\_ AFE NOMENCLATURE \_\_\_\_\_

**247 FACILITIES**

	<u>PRODUCTION</u>	<u>FACILITIES</u>	<u>ESTIMATED COST</u>
<b>Intangible</b>			
02 Install Labor.....	\$3,500	\$8,000	
Labor.....	0	\$3,000	
Dirt Work.....	\$500	\$2,000	\$17,000
Painting.....	0	0	
03 Company Vehicles.....	0	0	\$ 0
08 Location, Roads or Canals.....	0	0	\$ 0
12 Overhead.....	0	0	\$ 0
17 Damages, Property Losses and Other.....	0	0	\$ 0
43 Safety.....	0	0	\$ 0
44 Engineering/Lab/Technical Contract Services.....	\$500	0	\$ 500
47 Rental Compressor & Maintenance.....	0	0	\$ 0
48 Rental Equipment.....	0	0	\$ 0
49 Cathodic Protection.....	0	0	\$ 0
50 Right-of-Way _____ @ \$ _____ / rod.....	0	0	\$ 0
57 Pulling Unit Cost - (Subsurface).....	0	0	\$ 0
62 Environment Compliance (Assessment).....	0	0	\$ 0
63 Environment Compliance (Remediation).....	0	0	\$ 0
68 Company Supervision.....	0	\$2,000	\$2,000
73 Freight / Transportation.....	\$4,000	\$1,000	\$5,000
<b>Total Intangible.....</b>	<b>\$8,500</b>	<b>\$16,000</b>	<b>\$24,500</b>
<b>Tangible</b>			
20 Equipment Coating and Insulation.....	0	\$3,000	\$3,000
27 Separators			\$13,000
Unfired.....30" x 10' 2 phase sep.....	0	\$3,000	
Fired.....6' x 20' 3 phase htr trt.....	0	\$10,000	
28 Gas Sweetening Equipment.....	0	0	\$ 0
29 Pumping Unit..... American Prod I C 640 - 365 - 144.....	\$51,000	0	\$51,000
31 Prime Mover..... 60 Hp Nema D.....	\$1,600	0	\$1,600
32 Tanks			\$36,000
Oil Tank <u>  3  </u> 500 BBL @ _____.....	0	\$24,000	
Wtr Tank <u>  1  </u> 500 BBL @ _____.....	0	\$8,000	
Tank Walkway.....	0	\$4,000	
33 Metering Equipment.....	0	0	\$ 0
LACT Unit.....	0	0	
35 Compressor - Company Owned.....	0	0	\$ 0
36 Buildings.....	0	0	\$ 0
39 Misc. Flowlines, Pipes, Valves, & Fittings..(4 slot hdr.).....	0	\$18,000	\$18,000
51 Minor Pipelines.....	0	0	\$ 0
53 Surface Pumps.....	0	0	\$ 0
54 Electrical Accessories.....Size 4 Control Panel.....	\$1,600	0	\$1,600
55 Miscellaneous - Facility Expense.....	0	\$15,000	\$15,000
81 Tubing.....	0	0	\$ 0
82 Rods.....9,800' Norris 97.....	\$21,000	0	\$21,000
83 Down Hole Pumps.....2 1/2 X 1 1/4.....	\$2,300	0	\$2,300
84 Alternative Artificial Lift Equipment...Delta-X POC.....	\$3,500	0	\$3,500
86 Conventional Artificial Lift Well Head Equipment.....	0	0	\$ 0
96 Gas Dehydrator.....	0	0	\$ 0
<b>Total Tangible.....</b>	<b>\$81,000</b>	<b>\$85,000</b>	<b>\$166,000</b>
<b>Total (Production / Facility)</b>		<b>\$89,500</b>	<b>\$101,000</b>

**TOTAL FACILITY COST ESTIMATE**

**\$190,500**

07/10/95 c:\winword\costestm\CADDELL1.XOC

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

In the matter of the hearing called  
by the Oil Conservation Division  
for the purpose of considering:

CASE NO. 11417

Application of Meridian Oil Inc.  
for Compulsory Pooling,  
Aunt Lula 30 Well No. 1  
Lea County, New Mexico.

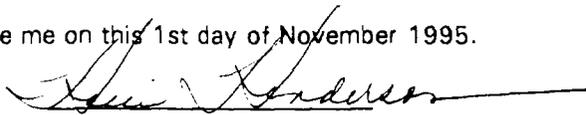
**CERTIFICATE OF MAILING AND COMPLIANCE WITH ORDER R-8054**

W. THOMAS KELLAHIN, attorney in fact and authorized representative of Meridian Oil Inc., states that the notice provisions of Division Rule 1207 (Order R-8054) have been complied with, that Applicant has caused to be conducted a good faith diligent effort to find the correct addresses of all interested parties entitled to receive notice, that on the 10th day of October 1995 I caused to be sent, by certified mail return receipt requested, notice of this hearing and a copy of the application for the referenced case along with the cover letter, at least twenty days prior to the hearing set for November 2, 1995, to the parties shown in the application as evidenced by the attached copies of receipt cards, and that pursuant to Division Rule 1207, notice has been given at the correct addresses provided by such rule.



W. Thomas Kellahin

SUBSCRIBED AND SWORN to before me on this 1st day of November 1995.



Notary Public

My Commission Expires: June 15, 1998

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION
<i>Meridian</i> EXHIBIT NO. <u>12</u>
CASE NO. <u>11417</u>

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**  
 • Complete items 1 and/or 2 for additional services.  
 • Complete items 3, and 4a & b.  
 • Print your name and address on the reverse of this form so that we can return this card to you.

Meridian/Aunt Lula 11/2/95  
 October 10, 1995

3. Article Addressed to:  
 Betty Osborn Biedenhorn Estate &  
 Betty Osborn Biedenhorn Trust  
 c/o Osborn Heirs Co.  
 POB 17968  
 San Antonio, Texas 78286

4a. Article Number  
 424 283 821

4b. Service Type  
 Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

7. Date of Delivery  
 10/16/95

5. Signature (Addressee)

6. Signature (Agent)  
 Lake Armon

PS Form 3811, December 1991 U.S. GPO: 1993-352-714

I also wish to receive the following services (for an extra fee):

1.  Addressee's Address

2.  Restricted Delivery

Consult postmaster for fee.

2 424 283 827

**Receipt for Certified Mail**  
 No Insurance Coverage Provided  
 Do not use for International Mail  
 (See Reverse)

93

Betty Osborn Biedenhorn Estate &  
 Betty Osborn Biedenhorn Trust  
 c/o Osborn Heirs Co.  
 POB 17968  
 San Antonio, Texas 78286

PS For	Special Delivery Fee	
	Restricted Delivery Fee	
	Return Receipt Showing to Whom & Date Delivered	

DOMESTIC RETURN RECEIPT

Is your RETURN ADDRESS completed on the reverse side?

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Meridian/Aunt Lula 11/2/95  
 October 10, 1995

3. Article Addressed to:  
 William B. Osborn, Jr.  
 individually and as Trustee  
 of the William B. Osborn, Jr Trust  
 POB 8C  
 San Antonio, Texas 78217

4a. Article Number  
 424 283 - 828

4b. Service Type  
 Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

7. Date of Delivery  
 10/16/95

5. Signature (Addressee)

6. Signature (Agent)

PS Form 3811, December 1991 U.S. GPO: 1993-352-714

DOMESTIC RETURN RECEIPT

2 424 283 828

**Receipt for Certified Mail**  
 No Insurance Coverage Provided  
 Do not use for International Mail  
 (See Reverse)

93

William B. Osborn, Jr.  
 individually and as Trustee  
 of the William B. Osborn, Jr Trust  
 POB 8C  
 San Antonio, Texas 78217

PS For	Special Delivery Fee	
	Restricted Delivery Fee	
	Return Receipt Showing to Whom & Date Delivered	

Thank you for using Return Receipt Service.

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Meridian/Aunt Lula 11/2/95  
 October 10, 1995

3. Article Addressed to:  
 Charlotte Osborn Barrett Trust  
 Marcus Thurman Barrett, III individually  
 William Osborn Barrett, individually  
 c/o Barrett Brothers Oil & Gas  
 POB 171190  
 San Antonio, Texas 78217

4a. Article Number  
 424 283 824

4b. Service Type  
 Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

7. Date of Delivery

5. Signature (Addressee)

6. Signature (Agent)  
 Aunt Lula

PS Form 3811, December 1991 U.S. GPO: 1993-352-714

DOMESTIC RETURN RECEIPT

2 424 283 829

**Receipt for Certified Mail**  
 No Insurance Coverage Provided  
 Do not use for International Mail  
 (See Reverse)

93

Charlotte Osborn Barrett Trust  
 Marcus Thurman Barrett, III individually  
 William Osborn Barrett, individually  
 c/o Barrett Brothers Oil & Gas  
 POB 171190  
 San Antonio, Texas 78217

PS For	Special Delivery Fee	
	Restricted Delivery Fee	
	Return Receipt Showing to Whom & Date Delivered	
	Return Receipt Showing to Whom Date, and Addressee's Address	
	TOTAL Postage & Fees	\$
	Postmark or Date	

Meridian/Aunt Lula 11/2/95  
 October 10, 1995

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**SENDER:**  
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 • Complete items 3, and 4a & b.  
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 • Attach this form to the front of the mailpiece, or on the back if space does not permit.  
 • Write your name and address on the front of the mailpiece, or on the back if space does not permit.  
 • The R delivered.

Meridian/Aunt Lula 11/2/95  
 October 10, 1995

I also wish to receive the following services (for an extra fee):  
 1.  Addressee's Address  
 2.  Restricted Delivery  
 Consult postmaster for fee.

3. Article Addressed to:  
 Alice J. Dickey  
 7608 B Shadow Mountain  
 Paradise Valley, AZ 85253

4a. Article Number  
 424 - 83 831

4b. Service Type  
 Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

7. Date of Delivery  
 10-12-95

5. Signature (Addressee)

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

6. Signature (Agent)

PS Form 3811, December 1991 U.S. GPO: 1993-352-714 DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

2 424 283 831



Receipt for Certified Mail

No Insurance Coverage Provided  
Do not use for International Mail (See Reverse)

33 Sent to

Alice J. Dickey  
 7608 B Shadow Mountain  
 Paradise Valley, AZ 85253

PS Form	Special Delivery Fee	
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2 424 283 830



Receipt for Certified Mail

No Insurance Coverage Provided  
Do not use for International Mail (See Reverse)

33 Sent to

National Geophysical, Inc.  
 1031 Andrews Highway  
 Ste. 207  
 Midland, Texas 79701  
 Attn: Brian Lucas

PS Form	Special Delivery Fee	
	Registered Delivery Fee	
	Return Receipt Showing to Whom & Date Delivered	

2 424 283 833



Receipt for Certified Mail

No Insurance Coverage Provided  
Do not use for International Mail (See Reverse)

33 Sent to

Sugarberry Oil & Gas Corp &  
 Global Natural Resources Corp of  
 Nevada  
 2911 Turtle Creek Blvd. Ste. 1080  
 Dallas, Texas 75219

PS Form	Special Delivery Fee	
	Registered Delivery Fee	
	Return Receipt Showing to Whom & Date Delivered	
	Postage & Fees	\$
	Postmark & Date	

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 Ste. 207  
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4a. Article Number  
 424 - 83 830

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 Certified  COD  
 Express Mail  Return Receipt for Merchandise

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Meridian/Aunt Lula 11/2/95  
 October 10, 1995

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 2.  Restricted Delivery  
 Consult postmaster for fee.

3. Article Addressed to:  
 John J. Fleet  
 c/o Fleet Family Mineral  
 Properties  
 4332 Livingston Avenue  
 Dallas, Texas 57205

4a. Article Number  
 424 - 83 832

4b. Service Type  
 Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

7. Date of Delivery

5. Signature (Addressee)

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

6. Signature (Agent)

PS Form 3811, December 1991 U.S. GPO: 1993-352-714 DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

Meridian/Aunt Lula 11/2/95  
October 10, 1995



STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES  
DEPARTMENT  
OIL CONSERVATION DIVISION

RECEIVED  
OCT 6 1995  
Oil Conservation Division

In the matter of the hearing called  
by the Oil Conservation Division  
for the purpose of considering:

Case No. 11417

Application of Meridian Oil Inc.  
for Compulsory Pooling,  
Aunt Lula 30 Well No. 1  
Lea County, New Mexico.

**PRE-HEARING STATEMENT**

This pre-hearing statement is submitted by Meridian Oil Inc. as required by  
the Oil Conservation Division.

**APPEARANCE OF PARTIES**

**APPLICANT**

Meridian Oil Inc.  
P.O Box 51810  
Midland, Texas 79710  
Attn: Don Davis  
915-688-6800

**ATTORNEY**

W. Thomas Kellahin  
Kellahin and Kellahin  
P.O. Box 2265  
Santa Fe, New Mexico  
(505) 982-4285

**STATEMENT OF CASE**

**APPLICANT:**

Meridian Oil Inc. seeks approval to pool all mineral interests in the Wolfcamp formation underlying the SE/4 of Section 30, Township 10 South, Range 38 East, NMPM in Lea County, New Mexico. Meridian has a working interest ownership in the oil and gas minerals underlying the said location.

The subject well, Aunt Lula 30 Well No. 1, is to be drilled at a standard well location in the NE/4SE/4 of Section 30 to test any and all formations in the pooled interval. The primary objective being to test for Wolfcamp oil production.

The well is to be dedicated to the appropriate sized spacing unit for the appropriate pool consisting of the NE/4SE/4 or the SE/4 of said Section 30.

Meridian needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste and for the drilling, completion and operations of the subject well at a standard gas well location upon terms and conditions which include:

- (1) Meridian Oil Inc. be named operator;
- (2) provisions for each working interest owner to participate in any production by reimbursing the applicant for the costs of drilling, completing, equipping and operating said well;
- (3) In the event a working interest owner fails to elect to participate, then provisions be made to recover out of production, reimbursement to the applicant for the costs of drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;
- (4) Provision for overhead rates of \$5,000 per month drilling and \$500.00 per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS; and
- (5) For such other and further relief as may be proper.

**PROPOSED EVIDENCE**

**APPLICANT**

**WITNESSES**

Leslyn Swierc  
(Landman)

EST. TIME

20 min.

EXHIBITS:

8 total

Adam Szantay  
(Geologist)

20 min.

Tom Sago  
(Geologist)

10 min.

Chet Babin  
(Petroleum Engineer)

10 min.

**PROCEDURAL MATTERS**

None anticipated at this time.

**KELLAHIN AND KELLAHIN**

By: \_\_\_\_\_  
W. Thomas Kellahin  
P.O. Box 2265  
Santa Fe, New Mexico  
(505) 982-4285

*ms.*

BEFORE THE

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION  
OF MERIDIAN OIL INC. FOR  
COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

RECEIVED  
1995  
Oil Conservation Division  
CASE NO. 11417

ENTRY OF APPEARANCE

COMES NOW CAMPBELL, CARR & BERGE, P.A., and hereby enters its  
appearance in the above referenced case on behalf of Nations Geophysical, Inc.

Respectfully submitted,

CAMPBELL, CARR & BERGE, P.A.

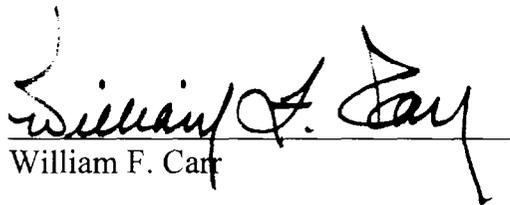
By: *William F. Carr*  
WILLIAM F. CARR  
Post Office Box 2208  
Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421

ATTORNEYS FOR NATIONS GEOPHYSICAL, INC.

## CERTIFICATE OF SERVICE

I hereby certify that on this 24<sup>th</sup> day of October, 1995, I have caused to be mailed a copy of our Entry of Appearance in the above-captioned case to the following named counsel:

W. Thomas Kellahin, Esq.  
Kellahin & Kellahin  
Post Office Box 2265  
Santa Fe, New Mexico 87504-2265

  
William F. Carr

*M.S.*

BEFORE THE

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

OIL CONSERVATION DIVISION

VED

1995

IN THE MATTER OF THE APPLICATION  
OF MERIDIAN OIL INC. FOR  
COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

OIL CONSERVATION DIVISION

CASE NO. 11417

ENTRY OF APPEARANCE

COMES NOW CAMPBELL, CARR & BERGE, P.A., and hereby enters its  
appearance in the above referenced case on behalf of W B Osborn Oil & Gas Operations.

Respectfully submitted,

CAMPBELL, CARR & BERGE, P.A.

By:

*William F. Carr*

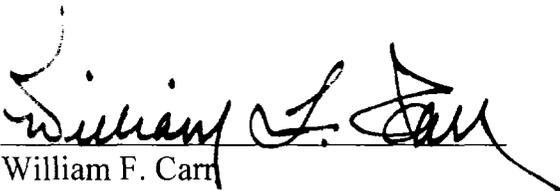
WILLIAM F. CARR  
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Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421

ATTORNEYS FOR W B OSBORN  
OIL & GAS OPERATIONS

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William F. Carr