

TERRY #1 WELL CHRONOLOGY

11/4/96 Sent offer letter to Liberty Trust Company, Trustee for the benefit of the Montgomery/Walker 1970 Trust.

Letter was returned. Looked up home phone number of W. M. Furman, who signed prior lease as President of Liberty Trust Company. Mrs. Furman answered phone and said she would contact her husband and call back.

11/21/96 Mrs. Furman called back to give the name of new Trustee.

12/9/96 Called Mrs. Furman. She said a new Trustee was being appointed in a week to 10 days.

Mrs. Furman left message to contact John E. Patterson, Jr., an attorney.

Contact Mr. Patterson. He advised us that Mr. Furman was in a federal penitentiary in Colorado.

Mr. Patterson called back with particulars as to leasing

1/29/97 Called Mr. Patterson about lease. He advised that they were attempting to get a new Trustee appointed.

Several phone contacts made with no new information.

4/28/97 Called Mr. Patterson. He suggested that we contact Mrs. Furman. Called Mrs. Furman, and she advised that she and Mr. Patterson would contact our office the following week.

5/28/97 Called Mr. Patterson and advised that he would try to complete next week.

6/17/97 Called Mr. Patterson, and he advised us that he was trying to get the necessary paperwork to someone in Odessa to finalize.

7/26/97 Called Mr. Patterson. Left message.

7/30/97 Called Mr. Patterson. Left message.

7/31/97 Called Mr. Patterson. Left message.

8/4/97 Called Mr. Patterson. Left message.

8/5/97 Called Mr. Patterson. Left message.

8/7/97 Called Mr. Patterson. He advised the process of appointing a new Trustee no complete. Ask that we call back in 2 weeks

8/25/97 Called Mr. Patterson. Left message.

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- 9/10/97 Contacted Mr. Patterson. He advised nothing done at this time. He advised that he had no time table for new Trustee to be appointed.
- 10/1/97 Sent letter to Thomas Kellahin requesting that Compulsory Pooling procedures be commenced on the SW/4 NE/4 Section 24, T-20-S, R-38-E, Lea County, New Mexico.
- 10/10/97 Sent AFE and Operating Agreement to Yates Petroleum Corporation proposing the Terry #1 well.
- 10/15/97 Sent AFE and Operating Agreement to Liberty Trust Company proposing the Terry #1 well. Advised of Compulsory Pooling date of November 6, 1997.
- 10/30/97 Contacted Mr. Patterson about hearing. He advised that he had received all letters and notice for Pooling hearing. He advised that they were not able to do anything at this time.

compool

JAMES H. SHAW
2501 Cimmaron
Midland, Texas 79705
915-684-5346

*1-21-96, 10/6/96, 11/1/96
11/1/96, 11/1/96, 11/1/96*

November 4, 1996

Liberty Trust Company,
Trustee for Benefit of
Montgomery/Walker Trust
P. O. Box 7159
Odessa, Texas 79760

*RE: 1-21-96
CLUBED W/...
S...
Re: Oil and Gas Lease
Section 24, E/2 NE/4, SW/4 NE/4
T-20-S, R-38-E
Lea County, New Mexico*

Gentlemen:

I am currently leasing the interest under the captioned lands, and according to my check of the Lea County records, you own an undivided mineral interest in these lands, which is unleased for oil and gas.

I hereby offer the following for a Paid-Up Oil and Gas Lease on the enclosed lease form (with attached rider), subject only to approval of title:

- 1) Bonus consideration to be \$150 per net mineral acres (1/64 = 1.875 net acres @ \$150 = \$281.25);
- 2) Term to be for three (3) years;
- 3) Basic royalty to be 3/16.

I am enclosing a Lease and Draft in duplicate, and if the above meets your approval please: 1) sign the lease before a notary public; 2) indicate your social security (or tax I.D.#) number for tax purposes; 3) endorse the collection draft; and 4) place the fully executed and acknowledged lease, along with the endorsed draft in your local bank for collection. (If you wish, you may simply return the executed lease to me and I will immediately furnish my check in the agreed amount.)

Thank you for your consideration and if there are questions, please call (915-684-5346).

Yours very truly,

James H. Shaw

Enclosures: Lease
Draft

CUSTOMER'S DRAFT

On approval of Oil and Gas Lease described herein, and on Approval of Title in same by Drawer not later than 30 days after arrival of this draft at collecting bank. Void after 90 days

PAY TO THE ORDER OF Liberty Trust Company, Trustee for Benefit of Montgomery/Walker Trust

\$281.25

Two hundred eighty-one and 25/100ths----- DOLLARS

This draft is in consideration for oil and gas lease, or assignment of oil and gas lease, covering all of payee's interest in and to the following described land:

E/2 NE/4 and SW/4 NE/4, Section 24, T-20-S, R-38-E, Lea County, New Mexico

The drawer, payee and endorsers hereof, and the grantors of the oil and gas lease described herein, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time above specified subject alone to acceptance of payment hereof the drawer, within said time, and without any right of the drawer, payee or endorsers hereof, or said grantors, to recall or demand return of this 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.

In the event this draft is not paid within said time, the collecting bank shall return the same to forwarding bank and no liability for payment or otherwise shall be attached to any of the parties hereto.

COLLECTING BANK
Norwest Bank Texas,
Midland, N.A.
P O Box 2097
Midland, TX 79702

DRAWER
James H. Shaw

ENDORSEMENT:

Liberty Trust Company, Trustee for Benefit of Montgomery/Walker Trust
SS# or Tax ID#
By:

OIL & GAS LEASE

THIS AGREEMENT made this _____ day of November 1996, between _____

Liberty Trust Company, Trustee for Benefit of Montgomery/Walker Trust

P. O. Box 7159

Odessa, Texas 79760

of _____ (Post Office Address)

herein called lessor (whether one or more) and STEVENS & TULL, INC., P.O.Box 11005, Midland, TX 79702 Lessee:

1. Lessor in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreement of the lessee herein covenants, leases and lets exclusively unto lessor and his heirs, assigns and assigns, the premises hereinafter described, to be drilled, operated and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the

following described land in Lea County, New Mexico to-wit:

T-20-S, R-38-E

Section 24 - E/2 NE/4, SW/4 NE/4

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 120 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of 3 years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil and on other liquid hydrocarbons saved at the well, 3/16 of that produced and saved from said land, same to be delivered at the well or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, paid in kind and sold or otherwise disposed of, the market price of the gas at the wellhead, less the cost of transportation to the market at the mouth of the well of 3/16 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate

as to both parties unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$ 120.00 which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders annually the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment

or tender may be made to the lessor or to the credit of the lessor in the _____ Bank

at _____, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor, if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made, provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other and lease interest mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard production unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after 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, after deducting any unit in lease or unit operations, which the number of surface acres 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. Lessee is further granted the right and power to commit this lease as to all or any portion of the above described lands or horizons thereof to any unit agreement for the purpose of conserving the natural resources of any oil or gas pool, field or area covered thereby; provided, such unit agreement contains usual and customary provisions for the allocation of oil and gas produced from the unit area and such unit agreement embraces lands of either the United States or State of New Mexico or both, and the form of unit agreement has been approved by either the United States Geological Survey or Commissioner of Public Lands or both and the New Mexico Oil Conservation Commission, and upon such commitment the provisions of this lease shall be conformed to the unit agreement.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or if it is within the primary term commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. 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 hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease 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. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate or to the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers any part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

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 act of Federal or state law, or by any act of God, or by any act of the lessee, then this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on 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. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessor's rights under the warranty, if the 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, rental, 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. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its 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 delivering or making a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated, thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written



Liberty Trust Company, Trustee for Benefit of Montgomery/Walker Trust

SS# or Tax ID#

By: _____

ILLEGIBLE

Dear Mr. [Name],

Here is the information
to you, I am in the [Name].
The [Name] should be [Name]
as follows:

Commercial [Name] [Name] Co. [Name]
Successor [Name] for [Name] Co. -
Employee [Name] [Name] [Name]
Segregated [Name].

You should send [Name] to
John E. Patterson Jr. - ATN
Commercial [Name] Co.
5555 North Grand Blvd.
Suite 210
Oklahoma City, Ok. 73112
405-947-1985 (0)

MR. FORMAN IS Sincerely,
IN FED. PENITENTIARY Charlotte Forman
IN COLO. (PER JOHN PATTERSON)

~~1-405-748-5510~~

JAMES H. SHAW
2501 Cimmaron
Midland, Texas 79705
915-684-5346

December 16, 1996

Mr. John E. Patterson, Jr.
5555 North Grand Avenue
Suite 210
Oklahoma City, Oklahoma 73112

Re: Oil and Gas Lease
Section 24: E/2 NE/4,
SW/4 NE/4
T-20-S, R-38-E
Lea County, New Mexico

Dear Mr. Patterson,

I have just talked to you by phone and enclose the oil and gas lease we discussed, together with the entire letter, etc. I had previously mailed to Liberty Trust Company in Odessa. All terms, etc. remain the same for your purposes, except your completion of the enclosed form as to the correct identity of Lessor (and Tax I.D.#). If there are questions, please call. Also by the time you get this letter you may have located evidence of title (satisfactory for leasing purposes) into Commonwealth Trust Co. If you wish to avoid bank charges at your end, you can mail the lease and draft direct to:

Norwest Bank Texas, Midland, N.A.
P. O. Box 2097
Midland, Texas 79702-2097
Attn: Debbie Glennan

Yours very truly,

James H. Shaw

STEVENS & TULL, INC.

MIDLAND, TEXAS 79702

P. O. Box 11005

915/699-1410

October 1, 1997

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

Attn: W. Thomas Kellahin

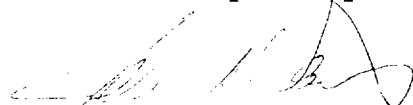
Re: Compulsory Pooling Hearing
Terry No. 1 Well,
SW/4 NE/4 Section 24,
T-20-S, R-38-E, N.M.P.M.,
Lea County, New Mexico
Terry Prospect

Dear Tom:

Stevens & Tull, Inc. is preparing to drill an Abo well on the captioned lands. One of the mineral owners, Liberty Trust Company, Trustee for the benefit of Montgomery/Walker 1970 Trust, has failed to respond to any of our proposals since the President of Liberty Trust Company is currently in prison.

Our first proposal was dated November 4, 1996. We have had numerous conversations since said letter. We have been advised on several occasions that a new Trustee will be appointed; however, to this date a new Trustee has not been appointed. Liberty Trust Company's address is c/o John E. Patterson, Jr., 5555 North Grand Blvd., Oklahoma City, OK 73112. We desire to pool all producing zones from the top of the Yates down to through the Abo formation, being the Undesignated House-San Andres Pool, Blinebry Oil and Gas Pool, East Warren Tubb Oil and Gas Pool, D-K Drinkard Pool and Undesignated DK-Abo Pool. Should you have any questions, please contact our office.

Yours very truly,



Jerry A. Weant, CPL
Landman

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STEVENS & TULL, INC.

P. O. Box 11005

MIDLAND, TEXAS 79702

915/699-1410

October 10, 1997

Yates Petroleum Corporation
105 South 4th Street
Artesia, New Mexico 88210

Attn: Janet Richardson

Re: Operating Agreement
Terry No. 1 Well
1980' FNL & FEL Sec. 24,
T-20-S, R-38-E, N.M.P.M.,
Lea County, New Mexico
Terry Prospect

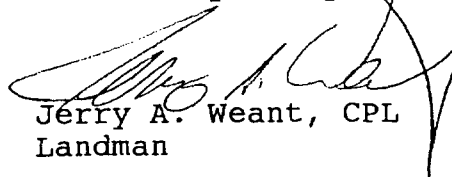
Ladies & Gentlemen:

Please find enclosed for your review and execution our proposed Operating Agreement and AFE for the drilling of the captioned well. We intend to spud this well in December, 1997.

The subject well will be drilled to a depth of 7,900 feet or a depth sufficient to test the Abo formation, whichever is the lesser. This well will directly offset the Collins & Ware, Inc. M&M lease. We are preparing for a Compulsory Pooling hearing due to one of the mineral owners being unable to execute an oil and gas lease. Therefore, you will be receiving notice of same in the immediate future.

Should you have any questions, please contact our office.

Yours very truly,


Jerry A. Weant, CPL
Landman

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STEVENS & TULL, INC.

P. O. Box 11005

MIDLAND, TEXAS 79702

915/699-1410

October 15, 1997

Liberty Trust Company
c/o John E. Patterson, Jr.
5555 North Grand Blvd.
Oklahoma City, OK 73112

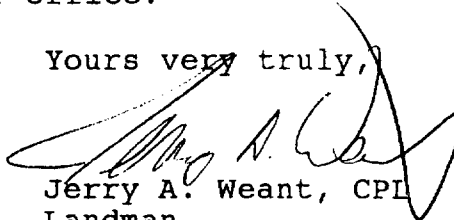
Re: Terry #1 Well
1980' FNL & FEL Sec. 24,
T-20-S, R-38-E, N.M.P.M.,
Lea County, New Mexico
Terry Prospect

Gentlemen:

Please find enclosed for your review two (2) copies of our AFE and Operating Agreement covering the drilling of the captioned well. We propose to drill this well to a depth of 7,900 feet or a depth in our opinion sufficient to test the Abo formation, whichever is the lesser.

We have tried to lease your interest in the past without success. As you are probably aware, we have filed for a Compulsory Pooling Hearing to be held November 6, 1997, in Santa Fe, New Mexico. If you decide to participate in this well, please return one (1) fully executed copy of the AFE and additional signature page of the Operating Agreement to our office as soon as possible. Should you have any questions, please contact our office.

Yours very truly,



Jerry A. Weant, CPL
Landman

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