

PS Form 3811, Jan. 1979

● SENDER. Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)
 Show to whom and date delivered.....
 Show to whom, date and address of delivery.....
 RESTRICTED DELIVERY
 Show to whom and date delivered.....
 RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery.....
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Mr. Kenneth G. Cone
 P. O. Box 11310
 Midland, Texas 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO.
 P335323634
 (Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE Addressee Authorized agent
Kenneth G. Cone

4. DATE OF DELIVERY: OCT - 2 1987

5. ADDRESS (Complete only if requested):
 10/2/87

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

POSTMARK: OCT 2 1987 PM 7:00

☆ U.S. POSTAL SERVICE

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

Erwin #1

P 335 323 634

POST OFFICE CLEARING HOUSE
 NATIONAL CENTER FOR MAIL DELIVERY
 U.S. POSTAL SERVICE

Mr. Kenneth G. Cone
 P. O. Box 11310
 Midland, Texas 79702

PS Form 3808, Apr. 1977

U.S. POSTAL SERVICE
 POSTMARK OR DATE

10/2/87

34 DIVISION

October 2, 1987

Mr. Kenneth G. Cone
P. O. Box 11310
Midland, Texas 79702

RE: Proposed Devonian Test
Erwin No. 1
EAST MORTON PROSPECT
Lea County, New Mexico

Dear Mr. Cone:

Mitchell Energy Corporation proposes the formation of a 324.08 acre working interest unit made up of Lots 1, 2, 3, 4 and S/2 N/2 Section 3, T-15-S, R-35-E, Lea County, New Mexico and the drilling of a well to test and evaluate the Devonian section at a depth of approximately 14,700'. The well would be located approximately 330' FNL and 1,800' FWL of Section 3.

The test well and subsequent operations within the proposed working interest unit will be governed by the terms of the enclosed AAPL 610-1982 Model Form Operating Agreement with COPAS 1984 Onshore Accounting Procedure designating Mitchell as Operator. At this time, we anticipate spud date on or before December 15, 1987.

According to our information, it appears the potential working interest parties and their respective interests within the proposed working interest unit will be as follows:

<u>INTEREST OWNER</u>	<u>UNIT INTEREST</u>
Mitchell Energy Corporation	0.6957136
Kaneb Operating Company, Ltd.	0.2281226
ARCO Oil and Gas Company	0.0313965
Fern Cone	0.0104167
Douglas Cone	0.0062500
Clifford Cone	0.0062500
Kenneth Cone	0.0062500
James Reed McCrory	0.0051839
Estate of William Thomas	0.0104167
Reed, deceased	

We would appreciate your confirmation of the above interest.

Enclosed herewith are duplicate copies of the AFE Cost Estimates for Dry Hole Costs and Completed Well Costs. If you elect to participate in drilling the proposed well, please execute and return one (1) copy of each of the AFE Cost Estimates. At such time as all participants are known, we will provide you with Exhibit "A" pages to the Operating Agreement reflecting the participants, working interests, leases and interests to be committed to the agreement and appropriate execution by Mitchell Energy.

Should you elect not to participate in the subject well, Mitchell hereby offers to lease your interest in Lots 1, 2, 3, 4 and S/2 N/2 Section 3 for \$200.00 per acre bonus, 1/4 royalty, for a three (3) year term and \$1.00 per acre annual rentals on the attached lease form. If you are in agreement to lease please advise and we will forward a draft and leasing instructions.

We would appreciate your early response so we may proceed with our drilling plans and completion of the Joint Operating Agreement.

Very truly yours,

MITCHELL ENERGY CORPORATION

Joe R. Lazenby
District Landman

JRL/jm

Enclosures

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

Type Project (check 1 only)

Exploratory Injection Water Supply
 Development Disposal Depth 14,700'
Devonian

Form B-1 Add Change Delete

AFE Number _____

Property/Well Name Erwin No. 1
(East Morton Field)

Project Description Drill

Net Working Interest -----

Group Code _____

Location Code _____

Department Number _____

County Lea St. N.M.

Operator MFC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

DRILLING COSTS

INTANGIBLE

	<u>Amount</u>
10 Dry Hole Abandonment	_____
11 Rig Mobilization and Demobilization	_____
12 Power and Fuel	_____
13 Water	_____
14 Solids Control Equipment Rental	_____
*15 Directional Equipment and Services	_____
16 Fishing Tools and Services	_____
17 Subsurface Casing Equipment	_____
18 Contract Labor and Services	_____
19 Supervision - Company and/or Contract	_____
50 Road and Site Preparation	_____
51 Footage Contract Fee	_____
52 Daywork Contract Fee	_____
53 Mud and Chemicals	_____
54 Bits and Reamers	_____
55 Drilling Tool and Equipment Rental	_____
56 Cement and Cement Services	_____
*57 Open Hole Logging-Testing	_____
*58 Drill Stem Testing	_____
59 Coring and Analysis	_____
60 Transportation	_____
61 Air/Marine Transportation	_____
63 Overhead	_____
64 Insurance	_____
65 Company Labor and Services	_____
*66 Prospect Generation	_____
67 Miscellaneous Services and Contingency	_____
 TOTAL INTANGIBLE COSTS	 _____

TANGIBLE

21 Casing-Drive Pipe & Conductor <u>16" - 60'</u>	_____
40 Casing - Surface <u>13-38" - 400'</u>	_____
41 Casing - Intermediate <u>8-5/8" - 6000'</u>	_____
42 Casinghead Equipment (Including Valves)	_____
43 Casing Spool (Including Valves)	_____
44 Miscellaneous Equipment	_____
 TOTAL TANGIBLE COSTS	 _____

TOTAL DRILLING (DRY HOLE) COSTS _____

* Invalid for disposal and water supply wells.

MEDC 252-02 APPROVED-KENNETH CONE
BY: _____

Prepared By: CSA:ff

Type Project (check 1 only)

- Exploratory Recompletion (Zone Change Only) Disposal
 Development Plug and Abandon (Previously Producing Well) Depth 14,700
 Injection Water Supply

Form B-2 <input type="checkbox"/> Add <input type="checkbox"/> Change <input type="checkbox"/> Delete AFE Number _____ Property/Well Name <u>Erwin #1</u> Project Description <u>Complete</u> Net Working Interest <u>1.00</u>	Group Code _____ Location Code _____ Department Number <u>730</u> County <u>Lea</u> St. <u>NM</u> Operator <u>Mitchell Energy Corp</u>
Estimated Date Project Will Be Completed _____ (Mo./Yr.)	

<u>COMPLETION COSTS</u>	<u>Amount</u>
<u>INTANGIBLE</u>	
22 Overhead	\$3,000
23 Company Labor and Services	35,000
24 Contract Labor and Services	11,000
25 Air/Marine Transportation	4,000
26 Other Transportation	4,000
27 Plugging and Abandonment	4,000
28 Rig Mobilization and Demobilization	3,000
29 Supervision - Company and/ or Contract	2,000
30 Site Preparation and Clean-up	15,000
31 Subsurface Casing Equipment	500
32 Squeeze Cement and Service	15,000
33 Completion Fluids	20,000
34 Pump Truck Services	10,000
35 Rental Tools	15,000
36 Bits and Reamers	7,500
37 Insurance	149,000
38 Wireline Services	4,500
39 Fishing Tools and Services	160,800
*53 Tertiary Injectants	62,500
68 Fencing	11,000
83 Daywork Contract Fee	7,000
84 Cement and Cement Services - Primary	110,000
85 Acidizing and Fracturing	2,000
*86 Cased Hole Logging and Perforating	4,000
94 Miscellaneous Services and Contingency	4,200
TOTAL INTANGIBLE COSTS	366,000
<u>TANGIBLE</u>	
69 Tubinghead Equipment (Including Valves)	4,500
70 Casing-Production and/or Liner <u>14,700' 20#/ft 5 1/2" N-80</u>	160,800
71 Tubing <u>14,500' 2 7/8" N-80 6.5#/ft</u>	62,500
72 Packers and Subsurface Equipment	11,000
73 Production Tree (Including Valves)	7,000
74 Storage Tanks <u>2-400 bbl steel & 1-400 bbl fiberglass</u>	110,000
75 Separating Equipment	2,000
76 Treating Equipment <u>4' x 20' heater treater</u>	4,000
77 Artificial Lift Equipment	4,200
78 Line Pipe	366,000
79 Valves and Fittings Beyond Wellhead	515,000
80 Miscellaneous Equipment	4,500
81 Platform and Structures	160,800
82 Metering Equipment	62,500
87 Pumps	11,000
90 Electrical Equipment	7,000
91 Instrumentation Equipment	110,000
96 Dehydrators and Dryers	2,000
TOTAL TANGIBLE COSTS	366,000
TOTAL COMPLETION COSTS	515,000

* Invalid for disposal and water supply wells.
 APPROVED-KENNETH CONE

K. Cone

OIL & GAS LEASE

THIS AGREEMENT made this 2nd day of October 19 87 between KENNETH G. CONE

P. O. Box 11310, Midland, Texas 79702 * (Post Office Address)

herein called lessor (whether one or more) and MITCHELL ENERGY CORPORATION, P. O. Box 4000, The Woodlands, Tx. 77380 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 agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas including 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:

Township 15 South, Range 35 East
Section 3: Lots 1, 2, 3, 4, S/2 N/2

Said land is estimated to comprise 324.08 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 three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled

3. The royalties to be paid by lessee are (a) on oil, and other liquid hydrocarbons saved at the well, 1/4 of that produced and saved from said land same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected, (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/4 of the gas used

provided that on gas sold on or off the premises, the royalties shall be 1/4 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 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 shall 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. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof), as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

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 Paragraph 3 hereof.

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 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 Energy and 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 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 used in lease or unit operations, 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 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 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 their heirs, executors, administrators, successors and assigns, but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

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. 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 to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, 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. 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 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 delivering or mailing 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, express or implied, of this agreement as to acreage so surrendered, and thereafter the 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.

KENNETH G. CONE

S.S. #

