

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF OGX RESOURCES
LLC FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

Case No. 13,450

STATEMENT OF RICHARD H. COATS

Richard H. Coats, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters set forth herein.

2. Pursuant to Division Rule 1207.A.(1)(b), the following information is submitted in support of the compulsory pooling application filed herein:

(a) No opposition is expected because the working interest owners being pooled (Jessie Pearl Butz and Lyle R. Butz) are not locatable. These persons own the mineral interest in 5 acres of land comprising the ~~N~~~~W~~~~1~~~~4~~~~S~~~~E~~~~1~~~~4~~~~N~~~~E~~~~1~~~~4~~ of Section 19, Township 24 South, Range 28 East, N.M.P.M. Applicant has attempted to locate these persons for several months through a search of the Eddy County records, nationwide telephone records, and internet databases, but has been unable to locate them. A summary of the attempts to locate them is given on Exhibit A.

(b) A map outlining the spacing unit being pooled, and marking the location of the subject well, is attached hereto as Exhibit B. Applicant seeks to dedicate the $\frac{E}{4}$ of Section 19, Township 24 South, Range 28 East, N.M.P.M. to the Pardue 19 Fed. Com. Well No. 1 as to the depths from the surface to the base of the Morrow formation. The primary zone of interest is the Morrow formation, which is a gas-bearing zone.

(c) The parties being pooled, and their (unleased) mineral interest in the 320 acre well unit, are as follows:

Jessie Pearl Butz and Lyle R. Butz

$\frac{5}{320} = 1.5625\%$

Their last known addresses are given on Exhibit A.

(d) Copies of the proposal letters which applicant sent to the uncommitted working interest owners are attached hereto as part of Exhibit A.

(e) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against any non-consenting

OIL CONSERVATION DIVISION
CASE NUMBER /
EXHIBIT NUMBER

interest owners.


(f) A copy of the Authority for Expenditure is attached hereto as Exhibit C. The re-entry and completion costs set forth therein are fair and reasonable, and are comparable to those of other wells of this depth re-entered in this area of Eddy County.

(g) Overhead charges of \$6500/month for a drilling well, and \$650/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for wells of this depth.

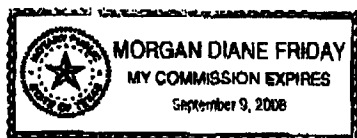
VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

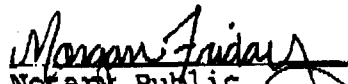
Richard H. Coats, being duly sworn upon his oath, deposes and states that: He is a landman, and a member of OGX Resources LLC; he is authorized to make this verification on its behalf; he has read the foregoing statement and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.


Richard H. Coats

Subscribed and sworn to before me this 16th day of March, 2005 by Richard H. Coats.



My Commission Expires:
September 9, 2008


Notary Public

Butz Mineral Interest
5 acre tract
N/2NWSENE Section 19, T24S, R28E, N.M.P.M.
Eddy County New Mexico

- Initial Lease proposal sent July 9, 2004 (regular mail) to Jessie Pearl Butz and Lyle R. Butz, 9504 Sunland Blvd., Sunland CA 91040. Received back unsigned lease in return envelope on July 20, 2004.
- Re-sent Lease Proposal along with option to participate to Jessie Pearl Butz and Lyle R. Butz at same address on September 20, 2004 (certified mail). Lease proposal returned by U.S. Postal Service unaccepted by addressee on October 26, 2004.
- Federal Express Lease proposal along with option to participate to Lyle R. Butz on November 1, 2004 to 11240 Sunburst Street, Lake View Terrace, CA 91342. No Response.
- Federal Express Lease proposal along with option to participate to Lyle R. Butz on December 27, 2004 to 7725 Apperson Street, Tajunga, CA 91042. No Response.
- Have requestes Death Certificate for Jessie Pearl Buts from California Office of Vital Records. Results indicate no death certificate was found in the State of California.
- Numerous internet searched were conducted to attempt to locate either person with no success.
- Numerous phone calls to persons with the last name of Butz were made in an effort to find either person or a relative of either person with no success.
- Based on the Surface Tax Rolls of Eddy County, our correspondence was sent to the correct last known address.





P.O. Box 10152
Midland, Texas 79702
432-682-4002
432-684-4741 Fax

July 9, 2004

Jessie Pearl Butz and Lyle R. Butz
9504 Sunland Blvd.
Sunland, CA 91040

RE: Proposed Oil and Gas Lease
N/2NW/4SE/4NE/4 Section 19, T-24-S, R-28-E, N.M.P.M.
Eddy County, New Mexico

Dear Ms. Butz and Mr. Butz:

The county records of Eddy County, New Mexico indicate that you are the owner of a 100% mineral interest (5.0 net acres) in the captioned property. OGX Resources LLC is presently leasing in this section and desires to lease your interest for the following terms:

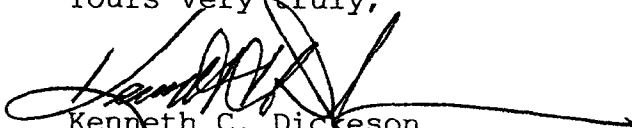
1. \$100.00 per net acre bonus consideration.
2. Three (3) year paid-up primary term.
3. 3/16th royalty rate.

A well will be commenced within the E/2 of Section 19 and your interest will be included in the communitized unit for this well. The well is scheduled to be drilled in September, 2004.

If this offer is acceptable to you, please execute the enclosed Oil and Gas Lease in the presence of a Notary Public and return to the undersigned. The copy should be retained for your file. Upon receipt of the executed lease, we will immediately remit to you a check in the amount of \$500.00.

Thank you for your consideration of this proposal. Inasmuch as we have been unable to contact you by telephone, we would appreciate a telephone call from you, should you have any questions.

Yours very truly,



Kenneth C. Dickeson
Consulting Landman

Olbutz

Paid-Up OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this 9th day of July, 2004 between Jessie Pearl Butz and Lyle R. Butz, each dealing in their sole and separate property, whose address is 9504 Sunland Blvd., Sunland, CA 91040, Lessor (whether one or more), and OGX Resources LLC., whose mailing address is P. O. Box 2064, Midland, Texas 79702, Lessee.

WITNESSETH:

1. Lessor, in consideration of TEN Dollars (\$10.00) in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for, producing and owning oil, gas and all other minerals, constructing and maintaining pipelines, roads, tanks, power stations, canals, telephone lines, and other structures and facilities thereon and on, over and across lands owned or claimed by Lessor adjacent or contiguous thereto, to produce, save, take care of, treat, dispose of, store, manufacture, transport and own said products and salt water, and housing employees, the following described land in Eddy County, New Mexico, to-wit:

Township-24-South, Range-28-East, N.M.P.M.:

Section 19: N/2NW/4SE/4NE/4,

also known as Malaga Tract No. 1134

and, in addition, any and all land and rights and interest in land owned or claimed by Lessor and adjacent or contiguous to the land above described.

For the purpose of determining the amount of any money payment hereunder, said premises shall be treated as comprising 5.0 acres, whether there be more or less.

2. Subject to the other provisions herein contained, this lease shall be for a term of **Three (3) years** from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from said land hereunder or land with which it or any part of it may be pooled.

3. This lease is fully paid up and shall remain in force for the primary term without obligation on Lessee to drill or explore, except as is expressly provided in paragraph 7 hereof, and the failure of Lessee to commence or resume operations during the primary term shall not constitute or be construed as an abandonment of the leasehold estate. The down cash payment is consideration for this lease according to its terms and shall not be allocated as mere rental for a period. Lessee may at any time or times execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the land covered hereby (or any one or more zones, formations or substances thereunder) and thereby surrendered this lease as to such portion or portions and be relieved of all obligations in connection therewith.

4. Royalties to be paid by Lessee on production from wells on said land are: (a) on oil, and on condensate saved at the well, Three-sixteenths (3/16) of that produced and saved from said land, the same to be delivered at the well or to the credit of Lessor in the pipeline to which the wells may be connected; Lessee may from time to time purchase any such royalty oil or condensate in its possession, paying the market price therefor prevailing for the field where produced for oil or condensate of like kind and gravity on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold or used off the premises or in the extraction of gasoline or other product therefrom, the market value at the well of Three-sixteenths (3/16) of the gas so sold or used, provided that on gas sold at the wells the royalty shall be Three-sixteenths (3/16) of the amount realized from such sale; (c) on all other minerals mined and marketed, one tenth either in kind or value at the well or mine, at lessee's election, except that on sulphur mined and marketed the royalty shall be One Dollar (\$1.00) per long ton. If at any time or times after the primary term, there is a gas well on said land, or on land with which said land or any part thereof may be pooled, and production therefrom is not sold or used off the premises, it shall nevertheless be considered that gas is being produced and marketed in paying quantities during all such time or times. The term "gas well" shall include any well capable of producing natural gas, condensate, distillate or any gaseous substance and any well classified as a gas well by any governmental authority. Not later than ninety (90) days after the date said well is shut in, the date the land covered hereby or any part thereof is included in a unit on which a gas well has been drilled and shut in, or the date this lease would otherwise cease to be maintained, whichever of the three dates is the latest, Lessee shall pay as royalty to the parties who would be entitled at the beginning of such ninety (90) day period to royalty on actual production of such substances a sum determined by multiplying One Dollar (\$1.00) by the number of acres then covered by this lease. Thereafter on or before its anniversary date of this lease occurring each year after the expiration of said ninety (90) day period, during any part of which year this lease is maintained in force by the existence of such shut-in gas well, Lessee shall pay as royalty to the parties who would be entitled at the end of such year to royalty on actual production of such substances a sum equal to the amount, if any, by which the sum determined by multiplying One Dollar (\$1.00) by the number of acres then covered by this lease exceeds the total royalties paid and payable hereunder on the actual production of oil, gas and other minerals during the preceding year. Any such payment may be made or tendered by the check or draft of Lessee. Where two or more such wells exist, the amount of such payment shall for all purposes be allocated to and deemed attributable to such wells separately in equal proportions. If the price of any substance is regulated by any governmental agency, the value of such substance, for the purpose of computing royalty hereunder, shall not be in excess of the price permitted by such regulation. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells, for all operations hereunder and the royalty on oil and gas shall be computed after deducting any so used.

5. Lessee is hereby granted the right, power and option at any time or times to pool and combine the land covered by this lease or any portion thereof with any other land, lease or leases in the vicinity thereof when in the Lessee's judgment it is necessary or advisable to do so. Such pooling may include all oil, gas and other minerals or may be limited to one or more such substances and may extend to all such production or may be limited to one or more zones or formations. Any such pooling shall be into a unit or units not exceeding by more than ten percent (10%) forty (40) acres each for the exploration, development and production of oil, and not exceeding by more than ten percent (10%) six hundred forty (640) acres each for the exploration, development and production of gas, including condensate; provided, however, that if any governmental authority prescribes or permits a larger unit as a spacing pattern for the orderly development of the field, or for any other purpose, or shall allocate a producing allowable based in whole or in part on acreage per well, any unit may be formed or reformed to embrace acreage up to the maximum content so prescribed, permitted or allocated. The effective date and term of each such pooling shall be as set forth by Lessee in an instrument filed for record in the county or counties in which the pooled land is situated, which instrument shall describe the acreage, zones, formations and substances pooled. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations anywhere on any such unit shall be treated as production, drilling or reworking operations on land covered by this lease. There shall be allocated to this lease the proportion of the pooled production from any such unit (whether or not from land covered by this lease) that the number of surface acres covered by this lease

and included in the unit bears to the total number of surface acres in such unit; royalties shall be paid hereunder only upon that portion of such production so allocated, and as to pooled production from land in such unit such shall be in lieu of any other royalties. Reduction in the size of or in the interest covered by any such unit as a result of failure of title or any other cause shall not of itself terminate the pooling. In the event of any such reduction no retroactive apportionment of royalties shall be required; nor shall royalties be payable thereafter on production from a tract (or on production attributable to an interest therein) title to which has thus been lost.

6. If Lessee drills a well on said land, or on land with which said land or any part thereof is pooled, and said well is completed as a dry hole, or is not produced, or if production therefrom should cease from any cause, and if such completion or cessation of production occurs within ninety (90) days prior to or at any time after expiration of the primary term, this lease shall nevertheless remain in force if production or operations for drilling or reworking are commenced or resumed on said land, or land with which it or any part thereof is pooled, within ninety (90) days after such completion or cessation of production. Upon expiration of the primary term or at any time or times thereafter when this lease is not otherwise maintained, this lease shall remain in force so long as any operations for drilling or reworking are prosecuted (whether on the same or different wells) on said land, or land pooled with such land or any part thereof, with no cessation of more than ninety (90) consecutive days, and, if they result in production of oil, gas or other minerals, so long as oil, gas or other mineral is produced.

7. In the event a well or wells producing oil or gas in paying quantities shall be brought in on said land or on adjacent land and not more than 330 feet from and draining the leased premises, Lessee agrees to drill such well or wells as a reasonably prudent operator would drill under the same or similar circumstances. No additional covenant for development, exploration, or protection shall be implied other than as expressly herein provided. Lessee will bury pipelines below ordinary plow depth when and where required by Lessor for cultivation, and will pay damage caused by Lessee's operations to growing crops. Lessee shall have the right at any time during the term of this lease or within one year after the termination of this lease to remove all properties and fixtures placed by Lessee on said land including the right to draw and remove all casing whether from producing or non-producing wells. No well shall be drilled within two hundred (200) feet of the principal residence now on said land without Lessor's consent.

8. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns, but no change or division in the ownership of the land or royalties or other payment hereunder or the right to receive same, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change or division in the ownership or right to receive royalties or other payment hereunder shall be binding upon Lessee for any purpose until sixty (60) days after Lessee shall have been furnished with duly recorded instrument or instruments or certified copies thereof or other legally authenticated written evidence of such change of ownership satisfactory to Lessee. In the event of the death of any person entitled to payments hereunder, Lessee may pay or tender such payments to the estate of the deceased until such time as Lessee is furnished evidence satisfactory to Lessee of the appointment and qualification of an executor or administrator of the estate, if there be one, and evidence satisfactory to Lessee as to the heirs or devisees of the deceased. If at any time two or more persons are entitled to participate in payments hereunder, Lessee may pay or tender such payments jointly to such persons; or, at Lessee's election, the proportionate part or parts to which any participant or participants may be entitled may be paid or tendered to such participant or participants separately. In the event of assignment or sublease hereof in whole or in part, liability for breach of any express or implied obligation hereunder shall rest exclusively upon the owner or sublessee who commits such breach. Insofar as the continuance of this lease in force under the terms hereof is concerned, drilling, reworking, production or payments in lieu of production on any portion of the land covered by this lease or on land pooled with such land, or any part thereof, shall inure to the benefit of the owners of this lease and of any and all portions thereof.

9. Lessor hereby warrants and agrees to defend the title to said land (to the extent of the interest purported to be covered by this lease) and agrees that Lessee, at Lessee's option, may purchase or discharge in whole or in part any tax, mortgage or other lien upon said land and thereupon be subrogated to the rights of the holder thereof and may apply royalties payable hereunder toward satisfying same or toward reimbursing Lessee, and Lessor further agrees that the interest of Lessor is and at a times shall be and remain primarily liable for such lien indebtedness, and that in any proceeding for the enforcement or collection thereof the interest of Lessor shall be first subjected to the payment thereof. For the purpose of determining the amount of any money payment hereunder, notwithstanding any other provisions to the contrary herein, Lessee may deduct or withhold the amount of any production, severance, withholding and other tax or taxes applicable thereto, in which event such money payment made or tendered shall nevertheless be treated for purposes of this lease as having included any amount so deducted or withheld. In case of dispute or litigation as to the ownership of or title to the royalties or other payments hereunder or Lessors' or Lessee's title, Lessee may withhold payment of royalties and other payments hereunder without interest until final adjudication or other settlement of such dispute or litigation and until sixty (60) days after Lessee shall have received evidence satisfactory to Lessee of the settlement or adjudication. Without any impairment of Lessee's rights under Lessor's warranty of title, it is agreed that if Lessor owns an interest in the land less than the entire fee simple estate and mineral and royalty rights relating thereto, the royalties and other payments to be paid or tendered hereunder shall be reduced proportionately and all outstanding royalties shall be deducted from those herein provided. The royalties and other payments herein provided for have been determined with respect to the entire fee or mineral estate and the fact that this lease might purport to cover a less interest shall not defeat the right of Lessee to reduce the royalties and other payments as above provided.

10. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease or cause a termination or reversion of the estate hereby created, nor be grounds for cancellation hereof in whole or in part save as herein expressly provided. In the event that Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the fact relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty (60) days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. Neither notice nor attempted compliance shall be evidence that a breach has occurred. The service of said notice shall be precedent to the bringing of any action by Lessor on this lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on Lessee. In case of cancellation or termination of this lease for any cause, Lessee shall have the right to retain under the terms hereof around each oil or gas well producing, being worked on or drilling hereunder the maximum acreage allocable to each such well as fixed by the rules of the appropriate governmental regulatory body applicable to such well or wells, but in no event less than twenty (20) acres. Notwithstanding any partial cancellation or release of acreage covered hereby, Lessee may retain such existing roadways, pipelines and other easements upon such cancelled or released lands as are necessary or convenient for Lessee's operations on lands retained hereunder or on lands pooled with such land, or any part thereof.

11. When drilling, production or other operations on said land or land pooled with such land, or any part thereof are prevented, delayed or interrupted by lack of water, labor or materials, or by fire, storm, flood, war, rebellion, insurrection, sabotage, riot, strike, difference with workers, or failure of carriers to transport or furnish facilities for transportation, or as a result of some law, order, rule, regulation or necessity of governmental authority, either State or Federal, or as a result of the filing of a suit in which Lessee's title may be affected, or as a result of any cause whatsoever beyond the reasonable control of Lessee, the lease shall nevertheless continue in full force and effect. If any such prevention, delay or interruption should commence during the primary term hereof, the time of such prevention, delay or interruption shall not be counted against Lessee and the running of the primary term shall be suspended during such time; if any such prevention, delay or interruption should commence after the primary term hereof Lessee shall have a period of ninety (90) days after the termination of such period of prevention, delay or interruption within which to commence or resume drilling, production or other operations hereunder, and this lease shall remain in force during such ninety (90)

day period and hereafter in accordance with the other provisions of this lease. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

12. This lease shall bind as Lessors all who execute it, whether or not named above as Lessors, and regardless of whether it is executed by all parties named above.

IN WITNESS WHEREOF, this instrument is executed by the first above written.

Jessie Pearl Butz

Lyle R. Butz

ACKNOWLEDGEMENTS

THE STATE OF CALIFORNIA §

COUNTY OF LOS ANGELES §

Before me, the undersigned authority, on this day personally appeared, Jessie Pearl Butz and Lyle R. Butz, known to me to be the persons whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and in the capacity herein expressed.

Given under my hand and seal of office this the _____ day of _____ A. D. 2004.

Notary Public in and for the State of California, County of Los Angeles



CA Office of Vital Records
M.S. 5103
P.O. Box 997410
Sacramento, CA 95899-7410
(916) 445-2684



U.S. POSTAGE

00.23:

METER 576965

Request Tracking Number:



2005006327

Death / Jessie Butz

See Reverse Side

Richard Coats
400 N. Marienfeld, Suite 200
Midland, TX 79701



Dear Customer:

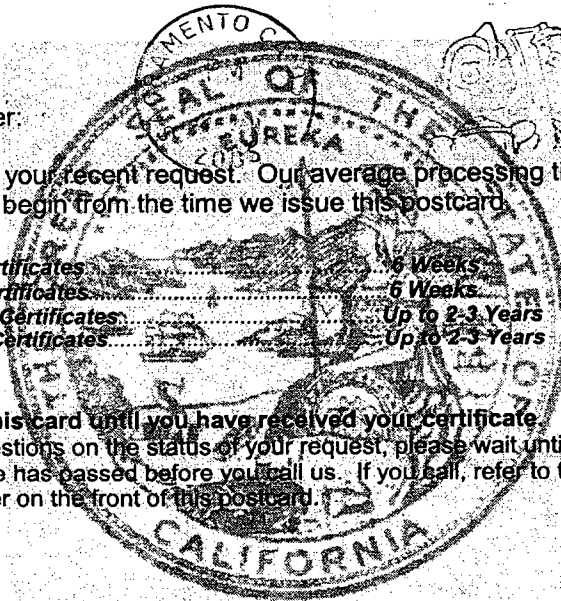
Thank you for your recent request. Our average processing times (noted below) begin from the time we issue this postcard.

Birth Certificates	6 Weeks
Death Certificates	6 Weeks
Marriage Certificates	Up to 2-3 Years
Divorce Certificates	Up to 2-3 Years

Please keep this card until you have received your certificate.

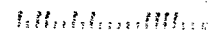
If you have questions on the status of your request, please wait until the processing time has passed before you call us. If you call, refer to the tracking number on the front of this postcard.

Thank you.



GREETINGS FROM
EUREKA
CALIFORNIA

09101+3052



State of California
Department of Health Services
Office of Vital Records
(916) 445-2684

Ship To (Recipient):

RICHARD COATS
400 N. MARIENFELD, SUITE 200
MIDLAND, TX 79701
USA

Requester: RICHARD COATS
RTN No.: 2005006327 - A0
Registrant: JESSIE PEARL BUTZ
Number of Copies: 1
Event Type: Death
Date Received: 01/18/2005
Amount Received: \$13.00
Postage: \$0.00

This Is Not a Bill
Requests for Different Certificates are Mailed Separately

Please Read

Enclosed is a Certified Copy of the Official Record
Currently on File in the California Office of Vital Records

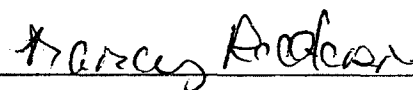
Effective July 1, 2003, the California Health and Safety Code (Section 103526)
permits only **authorized** persons to receive certified copies of birth and death records.
Those who are not authorized by law will receive a certified copy marked
"Informational - Not a Valid Document to Establish Identity."

Certificate of No Public Record

This is to certify that a search has been made of the Statewide Index in the Office of Vital Records covering the event shown, and no public record of this event was found based on the information provided.

Name(s):	JESSIE BUTZ	
Event:	Death	
Period Searched:	From	Through
	July 1905	Present

**Office of
Vital Records**



Signature

January 31, 2005

Date

United States Postal Service

Today's Date

Sender's Name

Sorry We Missed You! We'll Deliver for You

7/20

Item is at:

Post Office (See back)

Available for Pick-up After

We will redeliver or
you or your agent can
see reverse.must be present
item

☒ Letter
☐ Large
envelope,
magazine,
catalog, etc.
☐ Parcel

☐ Restricted
Delivery
☐ Perishable
Item
☐ Other:

For Delivery: (E
delivered by serv
For Notice Left:

☐ Express Mail
attempt to deliv
next delivery d
you instruct the
office to hold it.

☐ Certified
☐ Recorded
Delivery
☐ Firm Bill



9999

U.S. POSTAGE
PAID
MIDLAND, TX
79701
JUL 21, '04
AMOUNT

\$0.23
00034967-13

Delivery
Confirmation
Signature
Confirmation

Notice Left Section

Customer Name and Address

Wicherson
10152

Article Requiring Payment

Amount Due

☐ Postage Due ☐ COD ☐ Customs

\$ 0.23

☐ Final Notice: Article will
be returned to sender on

Delivered By and Date

PS Form 3849, November 1999

Delivery Notice/Reminder/Receipt

I don't understand
why letter was
not delivered
would they not
deliver letter if
it was not
delivered
with amount
letter was not
delivered
with amount
letter was not
delivered