

STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION

**APPLICATION OF BASS ENTERPRISES PRODUCTION CO. FOR AN ORDER  
AUTHORIZING THE DRILLING OF A WELL IN THE POTASH AREA, EDDY  
COUNTY, NEW MEXICO.**

CASE NO. 13367

**MOTION OF BASS ENTERPRISES PRODUCTION COMPANY  
FOR AN ORDER RE-INSTATING APPLICATION FOR PERMIT TO DRILL,  
AND DISMISSING THE OBJECTION OF IMC MINERALS/MOSAIC POTASH  
TO THE JAMES RANCH UNIT WELL NO. 93.**

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Bass Enterprises Production Company ("Bass") hereby moves the Division for an order re-instating its Application for Permit to Drill its proposed James Ranch Unit Well No. 93 approved by the Division on September 15, 2004, dismissing the objection of IMC Minerals to this location and vacating the hearing in this case, and in support of its motion states:

1. J.C. Mills and Francis Family Partnership, Ltd. is the surface owner of the NE/4 NE/4 of said Section 7 and an interest owner of the oil and gas minerals located under these lands. There are also thirteen other mineral interest owners in the NE/4 NE/4 of Section 7, excluding Bass Enterprises Production Company, which own mineral interests, including potash reserves in the NE/4 NE/4 of Section 7. Bass also has a potash mineral interest in said Section 7.

2. Bass Enterprises Production Company is the current lessee of a valid oil and gas lease from all mineral interest owners covering the oil and gas mineral rights under the NE/4 NE/4 of Section 7, Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico. Copies of the Oil and Gas Leases from the mineral interest owners to Bass, are attached hereto as Exhibit A.

3. Bass proposes to drill its James Ranch Unit Well No. 93 in the NE/4 NE/4 of said Section 7 and, on April 14, 2004, filed an Application for Permit to Drill ("APD") this well at a standard location 660 feet from the North and East lines of Section 7. Bass proposed to drill to a total depth of 14,610 feet to test the Lower Morrow formation.

4. Since the proposed well is within the designated oil/potash area as described in the New Mexico Oil Conservation Division/Commission Order R-111-P ("Order R-111-P"), on August 19, 2004, Bass notified all potash lessees within a mile of the proposed well location of its intent to drill. IMC Potash Carlsbad, Inc., now Mosaic Potash, ("IMC/Mosaic") is the only potash lessee within a mile of the proposed well location.

5. On September 15, 2004, the Oil Conservation Division approved Bass's APD. Bass's approved APD is attached as Exhibit B.

6. The owners of potash reserves, and Bass, as holder of oil and gas leases covering this property, have reached mutual agreement for the development of the minerals under this land whereby Bass will drill for and develop the oil and gas under this land and the potash resources under this property, if any, can thereafter be mined. Attached hereto as Exhibit C, D, and E are affidavits from Stacey Mills, a beneficiary of the J.C. Mills and Francis Family Partnership, Ltd., Larry Eudy, Trustee of the Angela Leigh Simpson Starrett Management Trust, and Dottie McLaughlin, agent for Southard Properties, supporting the application of Bass for the drilling of the James Ranch Unit Well No. 93.

7. Although IMC/Mosaic does not own potash mineral rights under the NE/4 NE/4 of Section 7, on September 17, 2004, IMC/ Mosaic filed a written objection to Bass's proposed well with the Oil Conservation Division's Artesia Office. In support of its objection IMC/Mosaic's Mine Engineering Superintendent stated:

I find you in error approving any APD within an LMR. R-111-P states "Any application to drill in the LMR area, including buffer zones, may be approved only by mutual agreement of the lessor and lessees of both potash and oil and gas interests." ....You must rescind the APD approval for this well immediately.

8. On September 18, 2004, the Division's District Office rescinded Bass's APD. A copy of the Division's September 18, 2004 letter is attached hereto as Exhibit F.

9. Order R-111-P makes no provision for an LMR determination when the proposed well is located, as here, on fee lands nor does Order R-111-P authorize a potash lessee to designate a Life of Mine Reserve ("LMR") area over lands not leased to that

potash lessee. *See* Oil Conservation Division Order No. R-9990, Finding 11, attached hereto as Exhibit G.

10. In this case all mineral interest owners, including the owners of the unleased potash interests underlying the NE/4 NE/4 of Section 7, as well as the surface owner, have consented to Bass's drilling of the James Ranch Unit Well No. 93 and desires to have their oil and gas minerals developed first and in preference to any potash reserves underlying said property.

11. There is mutual agreement of the owners of the oil and gas minerals and the potash minerals under the NE/4 NE/4 of said Section 7 for the drilling of the James Ranch Unit Well 93 and the provisions of Sub-part G(e)3 of Order R-111-P, the provision cited by IMC/Mosaic as the basis for its objection, have been met. Accordingly, Bass's APD was improperly rescinded and should be re-instated per Order No. R-9990. *See* Exhibit G.

12. Bass has followed the provisions of Order R-111-P, subpart G(e)(2), which requires it to provide notice of its intent to drill to all potash lessees within one mile of the proposed well location as provided in sub-part H of Order No. R-111-P and Commission precedent. The APD of Bass should not have been rescinded. Bass is entitled to drill the subject well as proposed with a representative of IMC/Mosaic present during the drilling, cementing, casing and plugging of said well to observe conformation with all requirements of Order No. R-111-P. *See* Exhibit G.

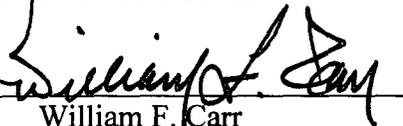
13. Based on the facts of this case and clear Commission precedent, the Division should dispose of this matter without hearing, immediately order the re-instatement of the drilling permit for the James Ranch Unit Well No. 93, and dismiss this case.

WHEREFORE, Bass Enterprises Production Co. request the Division:

- (1) apply the precedent established by its Order No. R-9990 to the facts of this case;
- (2) re-instate Division approval of Bass's Application for Permit to Drill the James Ranch Unit Well No. 93; and
- (3) dismiss the objection of IMC Potash Carlsbad, Inc/Mosaic Potash to this proposed well location.

Respectfully submitted,

HOLLAND & HART LLP

By: 

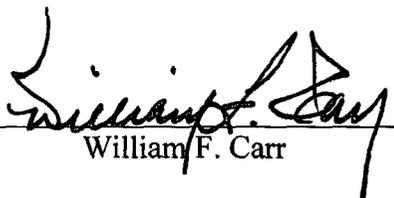
William F. Carr

Ocean Munds-Dry

ATTORNEYS FOR BASS ENTERPRISES  
PRODUCTION, CO.

**CERTIFICATE OF SERVICE**

I certify that I have caused a copy of the foregoing pleading to be delivered to Gail McQuesten, Esq. Attorney for the Oil Conservation Division by Hand Delivery, Dan Morehouse, Mosaic Potash by facsimile [Fax No. (505) 887-0589] and to Charles C. High Jr., Esq., Kemp, Smith, Duncan & Hammond, P.C., attorney for Mosaic Potash, by facsimile [Fax No. (915) 546-5360] on this 22nd day of November 2004.

  
William F. Carr

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Producers 88-80-640 (7-71)

OIL AND GAS LEASE

THIS AGREEMENT made this 8th day of July, 1981 between Sweetie J. Boyle, Individually and as Independent Executrix of the Estate of R. E. Boyle, Deceased lessor (whether one or more), whose address is, P. O. Box 10, Midland, Texas 79702 and Belco Petroleum Corporation, lessee, WITNESSETH:

1. Lessor, in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements of lessee hereinafter contained, does hereby grant, lease and let unto lessee the land covered hereby for the purpose and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil and gas, including casinghead gas, casinghead gasoline, condensate and all related hydrocarbons, and including all other products produced therewith, hereinafter referred to collectively as "said minerals", together with the right to make surveys on said land, lay pipe lines, establish and utilize facilities for surface or subsurface disposal of salt water, construct roads and bridges, dig canals, build tanks, power stations, telephone lines, employee houses and other structures on said land, necessary or useful in lessee's operations in exploring, drilling for, producing, treating, storing and transporting said minerals produced from the land covered hereby or any other land adjacent thereto. The land covered hereby, herein called "said land", is located in the County of Eddy State of New Mexico, and is described as follows:

NE/4 NE/4 Section 7, Township 23 South, Range 31 East, N.M.P.M.

(Notwithstanding the provisions in paragraph 3 herein, it is agreed that where the fraction 1/8th appears within said paragraph 3, that the same shall for the purposes of this lease be deemed to read 1/4th)

This lease also covers and includes any land contiguous to or adjoining the land above described, other than those constituting regular governmental subdivisions, and (a) owned or claimed by lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessor has a preferential right of acquisition. For the purpose of determining the amount of any bonus, delay rental or other payment hereunder, said land shall be deemed to contain .40 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof. Three (3) years effective from 8-29-81

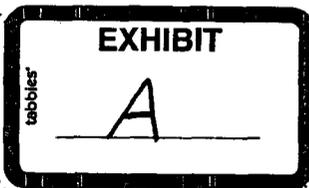
2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of ten (10) years from the date hereof, hereinafter called "primary term", and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days.

3. As royalty, lessee covenants and agrees: (a) To deliver to the credit of lessor in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and saved by lessee from said land, or from time to time, at the option of lessee, to pay lessor the average pooled market price of such one-eighth part of such oil at the wells as of the day it is run to the pipe line or storage tanks, lessor's interest, in either case, to bear one-eighth of the cost of treating oil to render it marketable pipe line oil; (b) To pay lessor on gas and casinghead gas produced from said land (1) when sold by lessee, one-eighth of the amount realized by lessee, computed at the mouth of the well, or (2) when used by lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth of such gas and casinghead gas; (c) To pay lessor on all other of said minerals produced and marketed or utilized by lessee from said land, one-tenth either in kind or the market value thereof at the well, at lessee's election. If, at the expiration of the primary term or at any time thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market said minerals capable of being produced from said wells, but in the exercise of such diligence, lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety (90) consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety-day period, lessee shall pay or tender, by check or draft of lessee, as royalty, a sum equal to the amount of delay rental provided for in this lease. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety-day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited in the depository bank provided for below. Nothing herein shall impair lessee's right to release as provided in paragraph 5 hereof. In event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

4. Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all of said minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 640 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are required under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled, any such unit may be established or enlarged to conform to the size required by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land covered by this lease within the unit bears to the total number of surface acres in the unit, and the production to allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder shall not have the effect of exchanging or transferring any interest under this lease between parties. Neither shall it impair the right of lessee to release as provided in paragraph 5 hereof, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. If operations are not conducted on said land on or before the first anniversary date hereof, this lease shall terminate as to both parties, unless lessee on or before said date shall, subject to the further provisions hereof, pay or tender to lessor or to lessor's credit in the Midland National Bank at Midland, Texas 79701, or its successors,

which shall continue as the depository, regardless of changes in ownership of delay rental, royalties, or other moneys, the sum of \$40.00, which shall operate as delay rental and cover the privides of deferring operations for one year from said date. In like manner and upon like payments or tenders, operations may be further deferred for like periods of one year each during the primary term. If at any time that lessee pays or tenders delay rental, royalties, or other moneys, two or more parties are, or claim to be, entitled to receive same, lessee may, in lieu of any other method of payment herein provided, pay or tender such rental, royalties, or other moneys, in the manner herein specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of lessee deposited in the mail or delivered to lessor or to the depository bank on or before the last date for payment. Said delay rental shall be apportionable as to said land on an acreage basis, and a failure to make proper payment or tender of delay rental as to any portion of said land or as to any interest therein shall not affect this lease as to any portion of said land or as to any interest therein as to which proper payment or tender is made. Any payment or tender which is made in an attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depository, shall nevertheless be sufficient to prevent termination of this lease and to extend the time within which operations may be conducted 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 from lessor. If the depository bank should refuse to accept any rental tendered hereunder, the tender nevertheless shall be fully effective and lessee shall have no obligation to make any further tender or payment in connection therewith until after lessor shall have furnished lessee with an instrument satisfactory to lessee naming another bank as agent to receive such payment. Lessee may at any time and from time to time execute and deliver to lessor or file for record a release or releases of this lease as to any part or all of said land or of any mineral or horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this lease is so released as to all of said minerals and horizons under a portion of said land, the delay rental and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.



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6. If at any time or times during the primary term operations are conducted on said land and if all operations are discontinued, this lease shall terminate on its anniversary date next following the ninetieth (90th) day after such discontinuance unless on or before such anniversary date lessee either (1) conducts operations or (2) commences or resumes the payment or tender of delay rental; provided, however, if such anniversary date is at the end of the primary term, or if there is no further anniversary date of the primary term, this lease shall terminate at the end of such term or on the ninetieth (90th) day after discontinuance of all operations, whichever is the later date, unless on such later date either (1) lessee is conducting operations or (2) the shut-in well provisions of paragraph 3 or the provisions of paragraph 11 are applicable. Whenever used in this lease the word "operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas or other of said minerals, or the production of oil, gas or other of said minerals, whether or not in paying quantities.

7. Lessee shall have the use, free from royalty, of water, other than from lessor's water wells, and of oil and gas produced from said land in all operations hereunder. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing. No well shall be drilled nearer than 200 feet to the house or barn now on said land without the consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops and timber on said land.

8. The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any of said minerals or horizons. All of the covenants, obligations, and considerations of this lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns and successive assigns. No change or division in the ownership of said land, royalties, delay rental, or other moneys, or any part thereof, howsoever effected, shall increase the obligations or diminish the rights of lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge of notice thereof of or to lessee, its successors or assigns, no change or division in the ownership of said land or of the royalties, delay rental, or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this lease until thirty (30) days after there has been furnished to such record owner at his or his principal place of business by lessor or lessor's heirs, successors, or assigns, notice of such change or division, supported by either originals or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the owner, lessee may, nevertheless pay or tender such royalties, delay rental, or other moneys, or part thereof, to the credit of the decedent in the depository bank provided for above. In the event of assignment of this lease as to any part (whether divided or undivided) of said land, the delay rental payable hereunder shall be apportionable as between the several leasehold owners, ratably according to the surface area or undivided interests of each, and default in delay rental payment by one shall not affect the right of other leasehold owners hereunder.

9. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said 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. Neither the service of said notice nor the doing of any act by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. If this lease is cancelled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations (but in no event less than forty acres), such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor's rights and interests hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on said land, but lessor agrees that lessee shall have the right at any time to pay or reduce same for lessor, either before or after maturity, and be subrogated to the rights of the holder thereof and to deduct amounts to paid from royalties or other payments payable or which may become payable to lessor and/or assigns under this lease. If this lease covers a less interest in said minerals, or any of them, 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), or no interest therein, then the royalties, delay rental, and other moneys 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. All royalty interest covered by this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessor.

11. If, while this lease is in force, at or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of lessee, the primary term and the delay rental provisions hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

12. Lessor hereby expressly relinquishes dower and releases and waives all rights under and by virtue of the homestead exemption laws insofar as they may in any way affect the purpose for which this lease is made.

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

Sweetie J. Boyle  
Sweetie J. Boyle, Indv. and as Ind.  
Executrix of the Estate of R. E. Boyle, Dec.

STATE OF Texas )  
 ) SS.  
COUNTY OF Midland )

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that Sweetie J. Boyle, Indv. and as Ind. xxx Exec. of the Est. of R.E. Boyle, Dec. is personally known, and known to me to be the same person described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that she executed and delivered the same as her free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this 10th day of July, 1981.

My Commission Expires: 12-17-84

Quinn Jane Shaw  
Notary Public in and for said County and State, residing at  
P. O. Box 7907, Midland 79703

STATE OF \_\_\_\_\_ )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that \_\_\_\_\_ and \_\_\_\_\_, to me personally known, and known to me to be the same person described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that \_\_\_\_\_ he \_\_\_\_\_ executed and delivered the same as \_\_\_\_\_ free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My Commission Expires:

Notary Public in and for said County and State, residing at

WHEN RECORDED RETURN TO:

This instrument was filed for record on the 17th day of September, 1981 at 12:20 o'clock P. M., and duly recorded in Book 604, Page 192 of the Midland County records of this office. County Clerk  
Jamie Pittman, Deputy  
County of Midland, State of Texas

INDEXED  
11/17/04

Production 87-8(46017-11)

PAID UP OIL AND GAS LEASE

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THIS AGREEMENT made this 8 day of April 1981 between Joanne B. James, a widow; Marille J. Bell (formerly Marille J. Cadell) Jean Ann Tully Stell and husband, Phillip Stell; James G. DeBlois, a single man. Lessor (whether one or more), whose address is: 1504 Lincoln Drive, Carlsbad, New Mexico 88220 and Belco Petroleum Corporation

Lessor, in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements of lessee hereinafter contained, does hereby grant, lease and let unto lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil and gas, including casinghead gas, casinghead gas-condensate and all related hydrocarbons, and including all other products produced therefrom, hereinafter referred to collectively as "said minerals", together with the right to make surveys on said land, lay pipe lines, establish and utilize facilities for surface or subsurface disposal of salt water, construct roads and bridges, dig canals, build tanks, power stations, telephone lines, employee houses and other structures on said land, necessary or useful in lessee's operations in exploring, drilling for, producing, treating, storing and transporting said minerals produced from the land covered hereby or any other land adjacent thereto. The land covered hereby, herein called "said land", is located in the County of Eddy, State of New Mexico and is described as follows:

Township 23 South, Range 31 East, N.M.P.M. Section 7: NE/4 NE/4

(Notwithstanding the provisions in Paragraph 3 herein, it is agreed that where the fraction 1/8th appears within said Paragraph 3, that the same shall for the purposes of this lease be deemed to read 3/16ths.)

This lease also covers and includes any land contiguous to or adjoining the land above described, other than those constituting regular governmental subdivisions, and (a) owned or claimed by lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessor has a preferential right of acquisition. For the purpose of determining the amount of any bonus, delay rental or other payment hereunder, said land shall be deemed to contain 40 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of (XX) years from the date hereof, hereinafter called "primary term", and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days.

3. As royalty, lessee covenants and agrees: (a) To deliver to the credit of lessor in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and saved by lessee from said land, or from time to time, at the option of lessee, to pay lessor the average posted market price of such one-eighth part of such oil at the wells as of the day it is run to the pipe line or storage tanks, lessor's interest, in either case, to bear one-eighth of the cost of treating oil to render it marketable pipe line oil; (b) To pay lessor on gas and casinghead gas produced from said land (1) when sold by lessee, one-eighth of the amount realized by lessee, computed at the mouth of the well, or (2) when used by lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth of such gas and casinghead gas; (c) To pay lessor on all other of said minerals proportion of the primary term or at any time or times thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market said minerals capable of being produced from said wells, in the exercise of such diligence, lessee shall not be required to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and term, all such wells are shut-in for a period of ninety (90) consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety-day period, lessee shall pay or tender, by check or draft of lessee, as royalty, a sum equal to the amount of annual delay rental provided for in this lease. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety-day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited in the depository bank provided for below. Nothing herein shall impair lessee's right to release as provided in paragraph 5 hereof. In event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

4. Lessee is hereby granted the right, at its option, to pool or utilize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all of said minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 640 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are required under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled, any such unit may be established or enlarged to conform to the size required by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land utilized therewith. A unit within the unit which are not effectively pooled or utilized. Any operations conducted on any part of such unitized land shall be considered for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a changing or transferring any interest under this lease between parties. Neither shall it impair the right of lessee to release as provided in paragraph 5 hereof, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force, if this lease now or hereafter covers separate tracts, no pooling or utilization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or utilize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. If operations are not conducted on said land on or before the first anniversary date hereof, this lease shall terminate as to both parties, unless lease on or before said date shall, subject to the further provisions hereof, pay or tender to lessor or to lessor's credit in the American Bank of Carlsbad, Carlsbad, New Mexico

which shall continue as the depository, regardless of changes in ownership of delay rental, royalties, or other moneys, the sum of \$ 40.00 which shall operate as delay rental and cover the privilege of deferring operations for one year from said date. In like manner and upon like payments or tenders, operations may be further deferred for like periods of one year each during the primary term. If at any time that lessor pays or tenders delay rental, royalties, or other moneys, two or more parties are, or claim to be, entitled to receive same, lessee may, in lieu of any other method of payment herein provided, pay or tender such rental, royalties, or other moneys, in the manner herein specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of lessee deposited in the mail or delivered to lessor or to the depository bank on or before the last date for payment. Said delay rental shall be apportionable as to said land on the acreage basis, and a failure to make proper payment or tender of delay rental as to any portion of said land or as to any interest therein shall not affect in any attempt to make proper payment, but which is erroneous in whole or in part, any payment or tender which is made prevent termination of this lease and to extend the time within which operations may be conducted 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 from lessor. If the depository bank should refuse to accept any rental tendered hereunder, the tender nevertheless shall be fully effective and lessor shall have no obligation to make any further tender or payment in connection therewith until after lessor shall have furnished lessee with an instrument satisfactory to lessee naming another bank as agent to receive such payment. Lessee may at any time and from time to time execute and deliver to lessor or file for record a release or releases of this lease as to any part or all of said land or of any mineral or horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this lease is so released as to all of said minerals and horizons under a portion of said land, the delay rental and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.

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6. If at any time or times during the primary term operations are conducted on said land and if all operations are discontinued, this lease shall terminate on its anniversary date next following the ninetieth (90th) day after such discontinuance unless on or before such anniversary date lessee either (1) conducts operations or (2) commences or resumes the payment of delay rental; provided, however, if such anniversary date is at the end of the primary term, or if there is no further anniversary date of the primary term, this lease shall terminate at the end of such term or on the ninetieth (90th) day after discontinuance of all operations, whichever is the later date, unless on such later date either (1) lessee is conducting operations or (2) the shut-in well provisions of paragraph 3 or the provisions of paragraph 11 are applicable. Whenever used in this lease the word "operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas or other of said minerals, or the production of oil, gas or other of said minerals, whether or not in paying quantities.

7. Lessee shall have the use, free from royalty, of water, other than from lessor's water wells, and of oil and gas produced from said land in all operations hereunder. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing. No well shall be drilled nearer than 200 feet to the house or barn now on said land without the consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops and timber on said land.

8. The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any of said minerals or horizons. All of the covenants, obligations, and considerations of this lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns and successive assigns. No change or division in the ownership of said land, royalties, delay rental, or other moneys, or any part thereof, howsoever effected, shall increase the obligations or diminish the rights of lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge or notice thereof of or to lessee, its successors or assigns, no change or division in the ownership of said land or of the royalties, delay rental, or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this lease until thirty (30) days after there has been furnished to such record owner at his or its principal place of business by lessor or lessor's heirs, successors, or assigns, notice of such change or division, supported by either originals or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the owner, lessee may, nevertheless pay or tender such royalties, delay rental, or other moneys, or part thereof, to the credit of the decedent in the depository bank provided for above. In the event of assignment of this lease as to any part (whether divided or undivided) of said land, the delay rental payable hereunder shall be apportionable as between the several leasehold owners, ratably according to the surface area or undivided interests of each, and default in delay rental payment by one shall not affect the right of other leasehold owners hereunder.

9. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said 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. Neither the service of said notice nor the doing of any acts by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. If this lease is cancelled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations (but in no event less than forty acres), such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor's rights and interests hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on said land, but lessor agrees that lessee shall have the right at any time to pay or reduce same for lessor, either before or after maturity, and be subrogated to the rights of the holder thereof and to deduct amounts so paid from royalties or other payments payable or which may become payable to lessor and/or assigns under this lease. If this lease covers a less interest in said minerals, or any of them, in all or any part of said land than the entire undivided fee simple estate (whether lessor's interest is herein specified or not), or no interest therein, then the royalties, delay rental, and other moneys 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. All royalty interests covered by this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessor.

11. If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of lessee, the primary term and the delay rental provisions hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

12. Lessor hereby expressly relinquishes dower and releases and waives all rights under and by virtue of the homestead exemption laws insofar as they may in any way affect the purpose for which this lease is made.

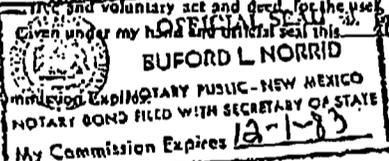
IN WITNESS WHEREOF, this instrument is executed on the date first above written.

(JBI) [Signature] (PS) Phillip Stell  
(MIR) [Signature] (PS) [Signature]  
(KC) [Signature]  
(JATS) Jean Ann Tully Stell

STATE OF New Mexico )  
COUNTY OF Eddy ) SS.

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that Jean Ann Tully Stell and Phillip Stell, husband, to me personally known, and known to me to be the same persons described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that they executed and delivered the same as free and voluntary act and deed for the purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this 23 day of June, 1981.

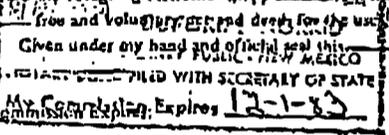


[Signature]  
Notary Public in and for said County and State, residing at Carlsbad, New Mexico

STATE OF New Mexico )  
COUNTY OF Eddy ) SS.

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that James G. DeBlint to me personally known, and known to me to be the same person described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that he executed and delivered the same as free and voluntary act and deed for the purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this 23 day of May, 1981.



[Signature]  
Notary Public in and for said County and State, residing at Carlsbad, New Mexico

WHEN RECORDED RETURN TO

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STATE OF New Mexico

COUNTY OF Eddy

On this 20 day of May in the year 1981, before me personally appeared Joanne B. James, a widow known to me to be the person(s) who is (are) described in and who executed the within instrument and acknowledged to me that she executed the same.

My Commission Expires 12-1-83  
OFFICIAL SEAL  
NOTARY PUBLIC - NEW MEXICO  
BURNETT L. NORRIS  
NOTARY PUBLIC - NEW MEXICO  
NOTARY BOND FILED WITH SECRETARY OF STATE  
My Commission Expires 12-1-83

[Signature]  
Notary Public

STATE OF New Mexico

COUNTY OF Eddy

On this 8<sup>th</sup> day of June in the year 1981, before me personally appeared Marilie J. Bell (formerly Marilie J. Cadell) known to me to be the person(s) who is (are) described in and who executed the within instrument and acknowledged to me that she executed the same.

My Commission Expires 12-1-83  
OFFICIAL SEAL  
NOTARY PUBLIC - NEW MEXICO  
BURNETT L. NORRIS  
NOTARY PUBLIC - NEW MEXICO  
NOTARY BOND FILED WITH SECRETARY OF STATE  
My Commission Expires 12-1-83

[Signature]  
Notary Public

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the 21 day of August, A. D. 1981 at 11:30 o'clock A.M., and duly recorded in Book 203, Page 421 of the Records of Mine of said County.

VIRGIE COLE, County Clerk

By [Signature] Deputy

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Publics 88-506-112-714

PAID UP OIL AND GAS LEASE

THIS AGREEMENT made this 22nd day of February 1980

James Gordon DeBlais, as his sole and separate property and estate, 8305 Yeager N.E., Albuquerque, New Mexico 87109, between and Belco Petroleum Corporation, 411 Pet. Bldg., Midland, Texas 79701

Lease, in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, receipt of which is hereby acknowledged, and all the covenants and agreements of lease hereinafter contained, does hereby grant, lease and let unto lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and winning oil and gas, including casinghead gas, casinghead steam, condensate and all related hydrocarbons, and including all other products produced therewith, hereinafter referred to collectively as "said minerals", together with the right to make surveys on said land, lay pipe lines, establish and utilize facilities for surface or subsurface disposal of salt water, construct roads and bridges, dig canals, build tanks, power stations, telephone lines, employee houses and other structures on said land, necessary or useful in lessee's operations in exploring, drilling for, producing, treating, storing and transporting said minerals produced from the land covered hereby in any other land adjacent thereto. The land covered hereby, herein called "said land", is located in the County of Eddy State of New Mexico, and is described as follows:

Township 23 South, Range 31 East, N.M.P.M. Section 7: NE/4 NE/4

(Notwithstanding the provisions in Paragraph 3 herein, it is agreed that where the fraction 1/8th appears within said Paragraph 3, that the same shall for the purposes of this lease be deemed to read 3/16ths.)

This lease also covers and includes any land contiguous to it adjoining the land above described, other than those constituting regular governmental subdivisions, and (a) owned or claimed by lessee by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessee has a preferential right of acquisition. For the purpose of determining the amount of any bonus, delay rental or other payment hereunder, said land shall be deemed to contain 40 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof.

Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of 10 years from the date hereof to be effective May 24, 1980.

As to all, lessor covenants and agrees: (a) To deliver to the credit of lessee in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and won by lessee from said land, or from time to time, at the option of lessee, to pay lessee the average market price of such one-eighth part of such oil at the well at the day it is run to the pipe line or storage tanks, lessor's interest, in either case, to bear one-eighth of the cost of treating oil to render it marketable pipe line oil; (b) To pay lessee on gas and casinghead gas produced from said land (1) when sold by lessee, one-eighth of the amount realized by lessee, computed at the mouth of the well, of (2) when used by lessee on said land or in the manufacture of casinghead or other products, the market value, at the mouth of the well, of (3) when used by lessee on said land or in the manufacture of casinghead or other products and marketed or utilized by lessee from said land, one-tenth either in kind or the market value thereof; (c) To pay lessee on all other oil and gas minerals produced and marketed or utilized by lessee from said land, one-tenth either in kind or the market value thereof at the well, at lessee's election. If, at the expiration of the primary term or of any time or times thereafter, there is any well on said land or on lands with which said land of any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, and thereafter this lease shall, nevertheless, continue in force as though operations were being conducted on said land so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market said minerals capable of being produced from said wells, but in the exercise of such diligence, lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and term, all such wells are shut-in for a period of ninety (90) consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety-day period, lessee shall make like payments or tender, by check or draft of lessee, as to all, a sum equal to the amount of annual delay rental provided for in this lease. Lessee shall make like payments or tender, by check or draft of lessee, at the end of each anniversary of the expiration of the primary term, all such wells are shut-in for a period of ninety (90) consecutive days, and during such time there are no operations on said land, then at or before the expiration of this lease is being continued in force under the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited in the depository bank provided for below. Nothing herein shall impair lessee's right to release as provided in Paragraph 5 hereof. In event of default of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all of said minerals or horizons, so as to establish units containing not more than 80 surface acres, plus (1) acreage tolerance, provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one of more horizons, so as to contain not more than 640 surface acres plus (1) acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are required under any governmental rule or order, for the drilling or operation of a well as a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled, any such unit may be established or enlarged to conform to the unit required by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying the such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each of such unit that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land in which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The termination of any unit hereunder shall not have the effect of changing or transferring any interest under this lease between parties. Neither shall it impair the right of lessee to release as provided in Paragraph 5 hereof, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released at the time this lease is recorded. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force. If this lease is merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that of (a) any other part of the leased premises.

If operations are not conducted on said land on or before the first anniversary date hereof, this lease shall terminate as to both parties, unless lessee on or before said date shall, subject to the further provisions hereof, pay or tender to lessee or to lessor's credit in the RIO GRANDE VALLEY BANK at P.O. Box 14527, Albuquerque, NM 87119 or its successors,

which shall continue as the depository, regardless of changes in ownership of delay rental, royalties, or other moneys, the sum of \$40.00 which shall operate as delay rental and cover the privilege of deferring operations for one year from said date, in like manner and upon like payments or tenders, operations may be further deferred for like periods of one year each during the primary term. If at any time that lease pays or tenders delay rental, royalties, or other moneys, less or more parties are, or claim to be, entitled to receive same, lessee may, in lieu of any other method of payment herein provided, pay or tender such rental, royalties, or other moneys, in the manner herein specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of lessee deposited in the name of or delivered to lessee or to the depository bank in or before the last date for payment. Said delay rental shall be apportionable as to said land on an acreage basis, and a failure to make proper payment or tender in delay rental as to any portion of said land or as to any interest therein shall not prevent termination of this lease as to any portion of said land or as to any interest therein as to which proper payment or tender is made. Any payment or tender which is made in an attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depository, shall nevertheless be sufficient to prevent termination of this lease and to extend the time within which operations may be conducted 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 from lessee. If the depository bank should refuse to accept any rental tendered hereunder, the tender nevertheless shall be fully effective and lessee shall have no obligation to make any further tender or payment in connection therewith until after lessee shall have furnished lessee with an instrument satisfactory to lessee naming another bank as agent to receive such payment. Lessee may at any time and from time to time execute and deliver to lessor or file for record a release or releases of this lease as to any part or all of said land or of any mineral or horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this lease is so released as to all of said minerals and horizons under a portion of said land, the delay rental and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.

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6. If at any time or times during the primary term operations are conducted on said land and if an operations are discontinued, this lease shall terminate on its anniversary date next following the nineteenth (19th) day after such discontinuance unless on or before such anniversary date lessee either (1) conducts operations or (2) commences or resumes the payment or tender of delay rental, provided, however, if such anniversary date is at the end of the primary term, or if there is no further anniversary date of the primary term, this lease shall terminate at the end of such term or on the nineteenth (19th) day after discontinuance of all operations, whichever is the later date, unless on such later date either (1) lessee is conducting operations or (2) the shut-in well provisions of paragraph 3 or the provisions of paragraph 11 are applicable. Whenever used in this lease the word "operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas or other of said minerals, or the production of oil, gas or other of said minerals, whether or not in paying quantities.

7. Lessee shall have the use, free from royalty, of water, other than from lessor's water wells, and of oil and gas produced from said land in all operations hereunder. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing. No well shall be drilled nearer than 200 feet to the house or barn now on said land without the consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops and timber on said land.

8. The rights and estate of any party herein may be assigned from time to time in whole or in part and as to any of said minerals or horizons. All of the covenants, obligations, and considerations of this lease shall extend to and be binding upon the parties herein, their heirs, successors, assigns and assigns. No change or division in the ownership of said land, royalties, delay rental, or other moneys, or any part thereof, howsoever effected, shall increase the obligations or diminish the rights of lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge or notice thereof of or to lessee, its successors or assigns, no change or division in the ownership of said land or of the royalties, delay rental, or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this lease until thirty (30) days after there has been furnished in such record owner at his or its principal place of business by lessor or lessor's heirs, successors, or assigns, notice of such change or division, supported by other originals or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the owner, lessee may, nevertheless pay or tender such royalties, delay rental, or other moneys, or part thereof, to the credit of the decedent in the depository bank provided for above. In the event of assignment of this lease as to any part (whether divided or undivided) of said land, the delay rental payable hereunder shall be apportionable as between the several leasehold owners, ratably according to the surface area or undivided interest of each, and default in delay rental payment by one shall not affect the right of other leasehold owners hereunder.

9. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said 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. Neither the service of said notice nor the doing of any acts by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. If this lease is cancelled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations that in no event less than forty acres, such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor's rights and interests hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on said land, but lessor agrees that lessee shall have the right at any time to pay or reduce same for lessor, either before or after maturity, and be subrogated to the rights of the holder thereof and to deduct amounts so paid from royalties or other payments payable or which may become payable to lessor and/or assigns under this lease. If this lease covers a less interest in said minerals, or any of them, in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest herein specified or not), or no interest therein, then the royalties, delay rental, and other moneys 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. All royalty interest covered by this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessor.

11. If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of lessee, the primary term and the delay rental provisions hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

12. Lessor hereby expressly relinquishes, conveys and releases and waives all rights under and by virtue of the homestead exemption laws insofar as they may in any way affect the purpose for which this lease is made.

IN WITNESS WHEREOF, this instrument is executed on the date first above written:

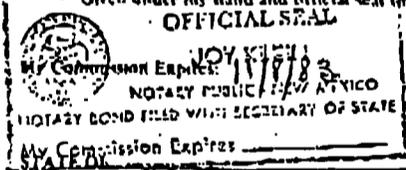
[Redacted signature lines]

[Signature of James Gordon DeBlois]
James Gordon DeBlois
AS his sole and separate property

STATE OF NEW MEXICO
COUNTY OF Bernalillo

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that James Gordon DeBlois, to me personally known, and known to me to be the same person described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that he executed and delivered the same as free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this 27th day of February, 1980.



[Signature of Joy K. Klein]
Notary Public in and for said County and State, residing at
1199 Montgomery Ave, APO 71111

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that and to me personally known, and known to me to be the same person described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that he executed and delivered the same as free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this day of 19.

My Commission Expires:

Notary Public in and for said County and State, residing at

WHEN RECORDED RETURN TO:

INDEXED

This instrument was filed for record on the 14th day of May, 1980 at 11:30 o'clock P.M., and duly recorded in Book 184, Page 922 of the Misc. records of this office. County Clerk: Marguerite Madalena. County of: Bernalillo, State of New Mexico. By: Cradene T. Wright - Deputy

148

McC-Hum. Prod. Co. Reg. No. 8/3/51

7406-503

Producers 88-40-640 (7-71)

OIL AND GAS LEASE

THIS AGREEMENT made this 8th day of July, 1981, between Charles L. Southard and wife, Irene L. Southard

lessor (whether one or more), whose address is: P. O. Box 1163, Midland, Texas 79702 and, Belco Petroleum Corporation, lessee, WITNESSETH:

1. Lessor, in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements of lessee hereinafter contained, does hereby grant, lease and let unto lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil and gas, including casinghead gas, casinghead gasoline, condensate and all related hydrocarbons, and including all other products produced therefrom, hereinafter referred to collectively as "said minerals", together with the right to make surveys on said land, lay pipe lines, establish and utilize facilities for surface or subsurface disposal of salt water, construct roads and bridges, dig canals, build tanks, power stations, telephone lines, employe houses and other structures on said land, necessary or useful in lessee's operations in exploring, drilling for, producing, treating, storing and transporting said minerals produced from the land covered hereby or any other land adjacent thereto. The land covered hereby, herein called "said land", is located in the County of Eddy State of New Mexico and is described as follows:

NE/4 NE/4 Section 7, Township 23 South, Range 31 East, N.M.P.M.

(Notwithstanding the provisions in paragraph 3 herein, it is agreed that where the fraction 1/8th appears within said paragraph 3, that the same shall for the purposes of this lease be deemed to read 1/4th)

This lease also covers and includes any land contiguous to or adjoining the land above described, other than those constituting regular governmental subdivisions, and (a) owned or claimed by lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessor has a preferential right of acquisition. For the purpose of determining the amount of any bonus, delay rental or other payment hereunder, said land shall be deemed to contain .60 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of XX years from the date hereof hereinafter called "primary term", and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days. Three (3) years effective from 8-29-81

3. As royalty, lessee covenants and agrees: (a) To deliver to the credit of lessor in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and saved by lessee from said land, or from time to time, at the option of lessee, to pay lessor the average posted market price of such one-eighth part of such oil at the wells as of the day it is run to the pipe line or storage tanks, lessor's interest, in either case, to bear one-eighth of the cost of treating oil to render it marketable pipe line oil; (b) To pay lessor on gas and casinghead gas produced from said land (1) when sold by lessee, one-eighth of the amount realized by lessee, computed at the mouth of the well, or (2) when used by lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth of such gas and casinghead gas; (c) To pay lessor on all other of said minerals produced and marketed or utilized by lessee from said land, one-tenth either in kind or the market value thereof at the well, at lessee's election. If, at the expiration of the primary term or at any time or times thereafter, there is pay well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market said minerals capable of being produced from said wells, but in the exercise of such diligence, lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety (90) consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety-day period, lessee shall pay or tender, by check or draft of lessee, as royalty, a sum equal to the amount of annual delay rental provided for in this lease. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety-day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited in the depository bank provided for below. Nothing herein shall impair lessee's right to release as provided in paragraph 5 hereof. In event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

4. Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all of said minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 640 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction, if larger units than any of those herein permitted, either at the time established, or after enlargement, are required under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled, any such unit may be established or enlarged to conform to the size required by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph of of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder shall not have the effect of exchanging or transferring any interest under this lease between parties. Neither shall it impair the right of lessee to release as provided in paragraph 5 hereof, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. If operations are not conducted on said land on or before the first anniversary date hereof, this lease shall terminate as to both parties, unless lessee on or before said date shall, subject to the further provisions hereof, pay or tender to lessor or to lessor's credit in the Midland National Bank at Midland, Texas 79701 or its successors,

which shall continue as the depository, regardless of changes in ownership of delay rental, royalties, or other moneys, the sum of \$ 40.00 which shall operate as delay rental and cover the privilege of deferring operations for one year from said date. In like manner and upon like payments or tenders, operations may be further deferred for like periods of one year each during the primary term. If at any time that lessee pays or tenders delay rental, royalties, or other moneys, two or more parties are, or claim to be, entitled to receive same, lessee may, in lieu of any other method of payment herein provided, pay or tender such rental, royalties, or other moneys, in the manner herein specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of lessee deposited in the mail or delivered to lessor or to the depository bank on or before the last date for payment. Said delay rental shall be apportionable as to said land on an acreage basis, and a failure to make proper payment or tender of delay rental as to any portion of said land or as to any interest therein shall not affect this lease as to any portion of said land or as to any interest therein as to which proper payment or tender is made. Any payment or tender which is made in an attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depository, shall nevertheless be sufficient to prevent termination of this lease and to extend the time within which operations may be conducted 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 from lessor. If the depository bank should refuse to accept any rental tendered hereunder, the tender nevertheless shall be fully effective and lessee shall have no obligation to make any further tender or payment in connection therewith until after lessor shall have furnished lessee with an instrument satisfactory to lessee naming another bank as agent to receive such payment. Lessee may at any time and from time to time execute and deliver to lessor or file for record a release or releases of this lease as to any part or of all of said land or of any mineral or horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this lease is so released as to all of said minerals and horizons under a portion of said land, the delay rental and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.

6. If at any time or times during the primary term operations are conducted on said land and if all operations are discontinued, this lease shall terminate on its anniversary date next following the ninetieth (90th) day after such discontinuance unless on or before such anniversary date lessee either (1) conducts operations or (2) commences or resumes the payment or tender of delay rental; provided, however, if such anniversary date is at the end of the primary term, or if there is no further anniversary date of the primary term, this lease shall terminate at the end of such term or on the ninetieth (90th) day after discontinuance of all operations, whichever is the later date, unless on such later date either (1) lessee is conducting operations or (2) the shut-in well provisions of paragraph 3 or the provisions of paragraph 11 are applicable. Whenever used in this lease the word "operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas or other of said minerals, or the production of oil, gas or other of said minerals, whether or not in paying quantities.

7. Lessee shall have the use, free from royalty, of water, other than from lessor's water wells, and of oil and gas produced from said land in all operations hereunder. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing. No well shall be drilled nearer than 200 feet to the house or barn now on said land without the consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops and timber on said land.

8. The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any of said minerals or horizons. All of the covenants, obligations, and considerations of this lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns and successive assigns. No change or division in the ownership of said land, royalties, delay rental, or other moneys, or any part thereof, howsoever effected, shall increase the obligations or diminish the rights of lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge of notice thereof or to lessee, its successors or assigns, no change or division in the ownership of said land or of the royalties, delay rental, or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this lease until thirty (30) days after there has been furnished to such record owner at his or its principal place of business by lessor or lessor's heirs, successors, or assigns, notice of such change or division, supported by either original or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the owner, lessee may, nevertheless pay or tender such royalties, delay rental, or other moneys, or part thereof, to the credit of the decedent in the depository bank provided for above. In the event of assignment of this lease to any part (whether divided or undivided) of said land, the delay rental payable hereunder shall be apportionable as between the several leasehold owners, ratably according to the surface area of undivided interests of each, and default in delay rental payment by one shall not affect the right of other leasehold owners hereunder.

9. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said 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. Neither the service of said notice nor the doing of any acts by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. If this lease is cancelled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations (but in no event less than forty acres), such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor's rights and interests hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on said land, but lessor agrees that lessee shall have the right at any time to pay or reduce same for lessor, either before or after maturity, and be subrogated to the rights of the holder thereof and to deduct amounts so paid from royalties or other payments payable or which may become payable to lessor and/or assigns under this lease. If this lease covers a less interest in said minerals, or any of them, 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), or no interest therein, then the royalties, delay rental, and other moneys 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. All royalty interest covered by this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessor.

11. If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of lessee, the primary term and the delay rental provisions hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

12. Lessor hereby expressly relinquishes dower and releases and waives all rights under and by virtue of the homestead exemption laws insofar as they may in any way affect the purpose for which this lease is made.

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

*Charles L. Southard*  
\_\_\_\_\_  
Charles L. Southard  
*Irene L. Southard*  
\_\_\_\_\_  
Irene L. Southard  
\_\_\_\_\_  
\_\_\_\_\_

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

STATE OF Texas )  
 ) SS.  
COUNTY OF Midland )

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that Charles L. Southard and wife, Mrs. Irene L. Southard to me personally known, and known to me to be the same persons described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that they executed and delivered the same as their free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this 10th day of July, 1981.

My Commission Expires: 2-2-85

*Mary Kay Upshaw*  
\_\_\_\_\_  
Notary Public in and for said County and State, residing at  
Midland, Texas

STATE OF \_\_\_\_\_ )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

INDIVIDUAL ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that \_\_\_\_\_ and \_\_\_\_\_ to me personally known, and known to me to be the same persons described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that \_\_\_\_\_ executed and delivered the same as \_\_\_\_\_ free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead. Given under my hand and official seal this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My Commission Expires:

Notary Public in and for said County and State, residing at

WHEN RECORDED RETURN TO:

This instrument was filed for record on the 16 day of September, 1981 at 12:15 o'clock P.M. and duly recorded in Book 208, Page 148 of the miscellaneous records of this office. County Clerk Debra Cole County of Eddy State of New Mexico

*11.00*

*1000 Best Copy Rec. - 7/15/81*

DH-2  
Paid Up

# OIL AND GAS LEASE

THIS AGREEMENT, made and entered into this 27 day of January, 1983 BY AND BETWEEN J. C. Mills and wife, Frances Juanita Mills

lessor (whether one or more), whose address is: Abernathy, Texas 79311  
and Belco Petroleum Corporation  
lessee whose address is: 411 Petroleum Building  
Midland, Texas 79701

WITNESSETH:  
1. Lessor, in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements of lessee hereinafter contained, does hereby grant, lease and let unto lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil and gas, including casinghead gas, casinghead gasoline, condensate and all related hydrocarbons, and including all other products produced therefrom, hereinafter referred to collectively as "said minerals", together with the right to make surveys on said land, lay pipelines, easements and utility facilities for purposes of surface disposal of said minerals, construct roads and bridges, dig ditches, ponds, canals, telephone lines, power lines and other structures on said land, necessary or useful in lessee's operations in exploring, drilling for, producing, treating, storing and transporting said minerals produced from the land covered hereby or any other land adjacent thereto. The land covered hereby, herein called "said land", is located in the County of Eddy, State of New Mexico, and is described as follows:

NE/4 NE/4 Section 7, T23S, R31E

(Notwithstanding the provisions in paragraph 3 herein, it is agreed that where the fraction appears within said paragraph 3, that the same shall for the purposes of this lease be deemed to read 3/16ths.)

This lease also covers and includes any land contiguous to or adjoining the land above described, other than those constituting regular governmental subdivisions, and (a) owned or claimed by lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessor has a preferential right of acquisition or (c) all riparian rights and land acquired or affected by avulsion, relocations and accretion adjoining and adjacent to any streams, rivers, creeks or bodies of water and rights which are, or may be incident thereto and/or a part thereof, together with all the interest in the Oil and Gas Minerals underlying the bed of any stream, river, creek or body of water. For the purpose of determining the amount of any bonus or other payment

hereunder, said land shall be deemed to contain 40 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of ~~60(00) year~~ from the date hereof, hereinafter called "primary term," and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days.

3. As royalty, lessee covenants and agrees: (a) to deliver to the credit of lessor in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and saved by lessee from said land, or from time to time, at the option of lessee, to pay lessor the amount realized by lessee of such one-eighth part of such oil at the wells as of the day it is run to the pipe line or storage tanks; (b) To pay lessor on gas and casinghead gas produced from said land (1) when sold by lessee, one-eighth of the amount realized by lessee, computed at the mouth of the well, or (2) when used by lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth of such gas and casinghead gas; (c) To pay lessor on all other said minerals produced and marketed or utilized by lessee from said land, one-tenth either in kind or the market value thereof at the well. At lessee's election, Lessor's interest to bear one-eighth of any and all costs incurred in the dehydrating, treating, transporting, boosting, compressing or otherwise processing such oil, gas and other hydrocarbons in order to make the same marketable. If, at the expiration of the primary term or at any time or times thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market said minerals capable of being produced from said wells, but in the exercise of such diligence, lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to send labor trouble or to market gas upon terms unacceptable to lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety (90) consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety-day period, lessee shall pay or tender, by check or draft of lessee, as royalty, a sum equal to one dollar (\$1.00) for each acre of land then covered hereby. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety-day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be

entitled to receive royalties which would be paid under this lease if the wells were producing, and may be deposited in the First National Bank

Bank at Box 1241, Lubbock, Texas 79408 or its successors, which shall continue as the depositories, regardless of changes in the ownership of shut-in royalty. If at any time that lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive same, lessee may, in lieu of any other method of payment herein provided, pay or tender such shut-in royalty, in the manner above specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of lessee deposited in the mail or delivered to the party entitled to receive payment or to a depository bank provided for above on or before the last date for payment. Nothing herein shall impair lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

4. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases and from time to time to modify, amend or terminate such pooling or unitization. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. 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 on a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations of a well shut in for want of a market under this lease. In lieu of the royalty elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that portion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the recurring right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, amend or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessee's right to enter into any cooperative or unit plan of development or operation, shall be accomplished by Lessee's execution of any document expressing Lessee's consent to any unit agreement and by filing such consent in the records of the County in which the lands described in this lease are located; Lessee's execution of such consent shall be binding as to both Lessor and Lessee and their respective interests.

5. Lessee may at any time and from time to time execute and deliver to lessor or file for record a release or releases of this lease as to any part or all of said land or of any mineral or riparian thereunder, and thereby be relieved of all obligations as to the released acreage or interest.

6. If at any time or times during the primary term operations are conducted on said land and if all operations are discontinued, this lease shall thereafter terminate on its anniversary date next following the ninetieth (90th) day after such discontinuance unless on or before such anniversary date lessee either (1) conducts operations or (2) commences or resumes the payment or tender of delay rental; provided, however, if such anniversary date is at the end of the primary term, or if there is no further anniversary date of the primary term, this lease shall terminate at the end of such term or on the ninetieth (90th) day after discontinuance of all operations, whichever is the later date, unless on such later date either (1) lessee is conducting operations or (2) the shut-in well provisions of paragraph 3 or the provisions of paragraph 11 are applicable. Whenever used in this lease the word "operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas or other said minerals, or the production of oil, gas or other said minerals, whether or not in paying quantities.

7406-623

554

Located on said land 600

7. Lessee shall have the use, free from royalty, of water, other than from lessor's water wells, and of oil and gas produced from said land in all operations hereunder. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing. No well shall be drilled nearer than 100 feet to the house or barn now on said land without the consent of the lessor. Lessee shall pay for damages caused by its operations to ~~the house or barn~~ on said land.

8. The rights and estate of any party herein may be assigned from time to time in whole or in part and as to any of said minerals or horizons. All of the covenants, obligations and considerations of this lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns and successive assigns. No change or division in the ownership of said land, royalties or other moneys, or any part thereof, howsoever effected, shall increase the obligations or diminish the rights of lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge or notice thereof of or to lessee, its successors or assigns, no change or division in the ownership of said land or of the royalties or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this lease until thirty (30) days after has been furnished to such record owner at his or its principal place of business by lessor or lessor's heirs, successors, or assigns, notice of such change or division, supported by either originals or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the owner, lessee nevertheless pay or tender such royalties or other moneys, or part thereof, to the credit of the descendant in a depository bank provided for above.

9. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said 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. Neither the service of said notice nor the doing of any acts by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. If this lease is cancelled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations (but in no event less than forty acres), such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary in operations of the acreage so retained.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor's rights and interest hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on said land, but lessor agrees that lessee shall have the right at any time to pay or reduce same for lessor, either before or after maturity, and be subrogated to the rights of the holder thereof and to deduct amounts so paid from royalties or other payments payable or which may become payable to lessor and/or assigns under this lease. If this lease covers a less interest in said minerals, or any of them, 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) or no interest therein, then the royalties and other moneys 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. All royalty interest covered by this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessor.

11. If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of lessee, the primary term hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

12. Lessor hereby expressly relinquishes dower and releases and waives all rights under and by virtue of the homestead exemption laws insofar as they may in any way affect the purpose for which this lease is made.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

Frances Juanita Mills  
Frances Juanita Mills

J. C. Mills  
J. C. MILLS

STATE OF Texas  
COUNTY OF Hale

INDIVIDUAL ACKNOWLEDGEMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that J. C. Mills and Wife, Frances Juanita Mills to me personally known, and known to me to be the same person S described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that they executed and delivered the same as their free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead.

Given under my hand and official seal this 16 day of January, February, 19 83

My Commission Expires:

  
WILMA W. BRISTOW  
Notary Public, State of Texas  
My Comm Expires May 5, 1984

Wilma W. Bristow  
Notary Public in and for said County and State, residing at  
Abertillery, Texas

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGEMENT

I, the undersigned, a Notary Public in and for said County and State, do hereby certify that \_\_\_\_\_ and \_\_\_\_\_, to me personally known, and known to me to be the same person \_\_\_\_\_ described in and who executed the foregoing instrument, appeared before me this day in person and acknowledged to me that \_\_\_\_\_ executed and delivered the same as \_\_\_\_\_ free and voluntary act and deed, for the uses, purposes and consideration therein expressed, including the relinquishment of dower and homestead.

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

My Commission Expires:

Notary Public in and for said County and State, residing at \_\_\_\_\_

WHEN RECORDED RETURN TO:

This instrument was filed for record on the 18 day of April, 1983 at 10:58 o'clock A. M., and duly recorded in Book 222, Page 553 of the Miscellaneous records of this office.

Virgie Cole County Clerk  
County of Eddy State of New Mexico  
By: Jannie Pittman, Deputy

585  
158  
RECORDED  
CONFIRMED  
01/16/83

**District I**  
1625 N. French Dr., Hobbs, NM 88240  
**District II**  
1301 W. Grand Avenue, Artesia, NM 88210  
**District III**  
1000 Rio Brazos Road, Aztec, NM 87410  
**District IV**  
1220 S. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy Minerals and Natural Resources

Form C-101  
Revised March 17, 1999

Oil Conservation Division **RECEIVED**  
1220 S. St. Francis Dr.  
Santa Fe, NM 87505

Submit to appropriate District Office  
State Lease - 6 Copies  
Fee Lease - 5 Copies

AUG 18 2004  
**OP-ARTESIA**  AMENDED REPORT

**APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE**

<sup>1</sup> Operator Name and Address Bass Enterprises Production Co. P.O. Box 2760, Midland, Texas 79702		<sup>2</sup> OGRID Number 001801
<sup>4</sup> Property Code 001786		<sup>3</sup> API Number 30-015-33619
<sup>3</sup> Property Name James Ranch Unit		<sup>6</sup> Well No. 93

<sup>7</sup> Surface Location									
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
	7	23S	31E		660	North	660	East	Eddy

<sup>8</sup> Proposed Bottom Hole Location If Different From Surface									
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
<sup>9</sup> Proposed Pool 1 Las Medanos; Morrow					<sup>10</sup> Proposed Pool 2 Atoka, Wolfcamp, Bone Spring, Delaware				

<sup>11</sup> Work Type Code N	<sup>12</sup> Well Type Code G	<sup>13</sup> Cable/Rotary R	<sup>14</sup> Lease Type Code P	<sup>15</sup> Ground Level Elevation 3295'
<sup>16</sup> Multiple N	<sup>17</sup> Proposed Depth 14800	<sup>18</sup> Formation Morrow	<sup>19</sup> Contractor Unknown	<sup>20</sup> Spud Date 7/01/04

<sup>21</sup> Proposed Casing and Cement Program					
Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17 1/2"	13 3/8"	54.50	600'	565	Surface ✓
12 1/4"	9 5/8"	40.0	4040' ✓	1175	Surface ✓
8 3/4"	7"	26.0	12000'	950	Surface
6 1/8"	4 1/2"	13.50	14800'	350	11700'

<sup>22</sup> Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

The proposed well will be the second producer in a already established N/2 proration unit. The well has not been staked at the time of APD Submittal; however, a certified land survey plat will be submitted under separate cover. 5000PSI BOP equipment as in diagram 1 will be the minimum requirement until the 7" is run and cemented. A 10,000PSI BOP/Choke manifold will be installed on the 7" casinghead as seen in diagram 2.

<sup>23</sup> I hereby certify that the information given above is true and complete to the best of my knowledge and belief.		OIL CONSERVATION DIVISION	
Signature: <i>Cindi Goodman</i> WNW		Approved by: <b>TIM W. GUM</b>	
Printed name: Cindi Goodman		Title: <b>DISTRICT II SUPERVISOR</b>	
Title: Production Clerk		Approval Date: <b>SEP 15 2004</b>	Expiration Date: <b>SEP 15 2005</b>
Date: 04/14/04	Phone: (432) 683-2277	Conditions of Approval: _____	
		Attached <input type="checkbox"/>	

EXHIBIT  
**B**

**NOTIFY OCD TO WITNESS  
ALL CASING STRINGS**

**R-111-P**

**STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION**

**APPLICATION OF BASS ENTERPRISES PRODUCTION CO. FOR AN ORDER  
AUTHORIZING THE DRILLING OF A WELL IN THE POTASH AREA, EDDY  
COUNTY, NEW MEXICO.**

CASE NO. \_\_\_\_\_

**AFFIDAVIT OF STACEY MILLS**

I, Stacey Mills, being first duly sworn upon my oath, state as follows:

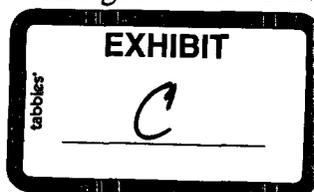
1. I am over the age of twenty-one years and have personal knowledge of the facts contained in this Affidavit. The facts contained in this Affidavit are true and accurate.

2. I am a beneficiary of the J.C. Mills and Frances Family Partnership, Ltd. ("Partnership"), which is owner of the surface and has an interest in the minerals located at the NE/4 NE/4 in Section 7, Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico. I speak on behalf of all beneficiaries of the Partnership.

3. J.C. Mills and Frances Juanita Mills, predecessor in title to J. C. Mills and Frances Family Partnership, Ltd., executed an oil and gas lease on July 8, 1981 in which Belco Production Corporation was original lessee. Bass Enterprises Production Co., current lessee, has the right to develop the oil and gas under said land.

4. I understand that Bass proposes to drill a well known as the James Ranch Unit Well No. 93 on the NE/4 NE/4 of Section 7.

5. It is my, and that of the Partnership's, intention as owner of the surface and minerals in said area, to have the oil and gas minerals developed first and in preference





5. I understand that Bass proposes to drill a well known as the James Ranch Unit Well No. 93 on the NE/4 NE/4 of said Section 7.

6. The Trust supports Bass's application for the drilling of the James Ranch Unit Well No. 93.

7. The attached Exhibit A is a true and correct copy of The Trust's oil and gas agreement with Bass.

DATED this 18<sup>TH</sup> day of NOV., 2004.

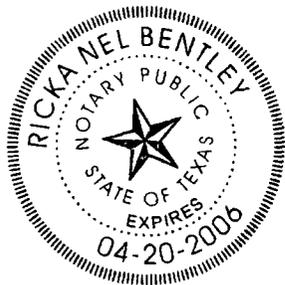
Larry Eudy  
Larry Eudy

STATE OF Texas )  
COUNTY OF Midland ) ss.

Subscribed and sworn to before me this 18<sup>th</sup> day of November, 2004 by Affiant Name.

Ricka Nel Bentley  
Notary Public

My Commission Expires:



**STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION**

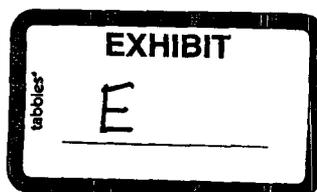
**APPLICATION OF BASS ENTERPRISES PRODUCTION CO. FOR AN ORDER  
AUTHORIZING THE DRILLING OF A WELL IN THE POTASH AREA, EDDY  
COUNTY, NEW MEXICO.**

CASE NO. \_\_\_\_\_

**AFFIDAVIT**

I, Dottie McLaughlin, Assistant-Vice President and Trust Officer of Wells Fargo Bank N.A., being first duly sworn upon my oath, state as follows:

1. I am over the age of twenty-one years and have personal knowledge of the facts contained in this Affidavit. The facts contained in this Affidavit are true and accurate.
  
2. Wells Fargo Bank N.A., as Agent for Southard Properties owns an interest in the minerals located in the NE/4 NE/4 in Section 7, Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico.
  
3. Southard Properties' predecessor in title, Sweetie J. Boyle, Individually & Independent Executrix of the Estate of R. E. Boyle, deceased, signed an oil and gas lease on July 8, 1981 covering the above described land in which Belco Production Corporation was original lessee. Bass Enterprises Production Company is the current lessee and has the right to develop the oil and gas minerals in which Southard Properties owns an interest.
  
4. As this is the only lease for minerals, Southard Properties remains an unleased interest owner of any potash minerals in said Section 7.



5. I understand that Bass proposes to drill a well known as the James Ranch Unit Well No. 93 on the NE/4 NE/4 of said Section 7.

6. The Trust supports Bass's application for the drilling of the James Ranch Unit Well No. 93.

7. The attached Exhibit A is a true and correct copy of Southard Properties' oil and gas agreement with Bass.

DATED this 18<sup>th</sup> day of November, 2004.

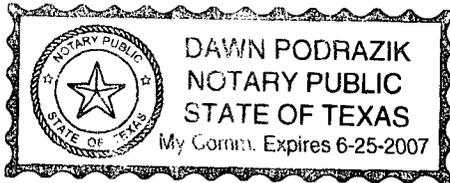
Dottie McLaughlin  
Dottie McLaughlin

STATE OF TEXAS                    )  
  ) ss.  
COUNTY OF MIDLAND            )

Subscribed and sworn to before me this 18<sup>th</sup> day of November, 2004 by  
Affiant Name.

Dawn Podrazik  
Notary Public

My Commission Expires:





# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**  
Governor  
**Joanna Prukop**  
Cabinet Secretary

**Mark E. Fesmire, P.E.**  
Director  
Oil Conservation Division

September 18, 2004  
Bass Enterprises Production Company  
201 Main St., Suite 3100  
Fort Worth, Texas 76102-3131  
Attn: Wayne Bailey or To Whom It May Concern

**RE: RESCIND THE APPLICATION FOR PERMIT TO DRILL IN THE POTASH AREA  
BASS ENTERPRISES PRODUCTION COMPANY:  
JAMES RANCH UNIT #93, LOCATED IN NE/NE (660' FNL & 660' FEL') OF  
SECTION 7, TOWNSHIP 23 SOUTH, RANGE 31 EAST, EDDY COUNTY, NEW  
MEXICO API # 30-015-33619**

Dear Mr. Bailey or To Whom It may Concern,

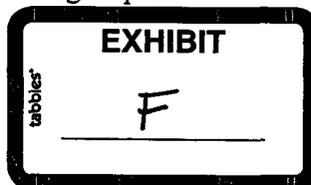
In regards to the above referenced well, the New Mexico Oil Conservation Division **rescinds** **immediately** said application to drill (APD) per the conditions of R-111-P. Please review R-111-P as brought to attention from IMC's letter which is included with this faxed letter.  
As stated in pgs. 11 & 12 of R-111-P: " Any application to drill in the LMR area, including buffer zones, may be approved only by mutual agreement of lessor and lessees of both potash and oil and gas interests. Applications to drill outside the LMR will be approved as indicated below; provided there is no protest from potash lessee within 20 days of this receipt of a copy of the notice.

Please call if you have any questions regarding this matter,

Respectfully yours,

Bryan G. Arrant  
PES

CC: Tim Gum, District Supervisor-Artesia  
Dan Morehouse, Mine Engineering Superintendent for IMC  
Well File



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. 10490  
ORDER NO. R-9990

**APPLICATION OF NORANDA MINERALS, INC. REQUESTING THE DIVISION TO  
RESCIND OR DENY AN APPLICATION TO DRILL A CERTAIN WELL IN THE  
OIL/POTASH AREA, LEA COUNTY, NEW MEXICO**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This cause came on for hearing at 8:15 a.m. on September 3 and 4, 1992 and at 8:00 a.m. on October 26, 1992 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

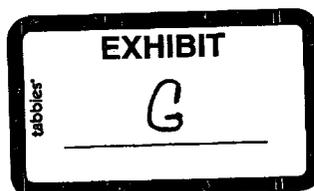
NOW, on this 18th day of October, 1993, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

**FINDS THAT:**

(1) Due public notice having been given as required by law and in accordance with New Mexico Oil Conservation Division/Commission Order No. R-111-P, the Division has jurisdiction of this cause and the subject matter thereof.

(2) On April 1, 1992, Yates Petroleum Corporation ("Yates") filed an "Application for Permit to Drill" its Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico.

(3) On or about April 15, 1992, Noranda Minerals, Inc. (Noranda) filed with the Division an objection to said Yates' "Application for Permit to Drill" the Snyder "AKY" Well No. 1.



(4) Noranda, the applicant in this matter, under those portions of the "New Mexico Oil and Gas Act", Sections 70-2-1 through 70-2-36, NMSA (1978) pertaining to "potash", seeks an order of the Division rescinding or denying the approval by the Division of the aforementioned "Application for Permit to Drill" which would authorize Yates to drill its Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico.

(5) Snyder Ranches, Inc. ("Snyder Ranches") is the current fee owner of both the oil and gas minerals and potash minerals underlying the SW/4 NE/4, the S/2 NW/4, the NW/4 SW/4 and the SE/4 of said Section 1 (the "Snyder Ranches fee acreage"). Previously, Snyder Ranches sold the surface but retained the mineral estate for the Snyder Ranches fee acreage. Snyder Ranches appeared at the hearing in opposition to Noranda and in support of Yates.

(6) Yates as the current lessee of a valid oil and gas lease from Snyder Ranches for the Snyder Ranches fee acreage in said Section 1 and proposed operator of the Snyder "AKY" Well No. 1, appeared at the hearing and presented evidence in opposition to Noranda.

(7) Noranda is the current lessee of a valid potash lease with the State of New Mexico for all of Section 2, Township 20 South, Range 32 East, NMPM and for all of Section 36, Township 19 South, Range 32 East, NMPM. Noranda is also the current lessee of a valid federal potash lease with the United States Bureau of Land Management for the balance of said Section 1, all of Section 11 and the N/2 and SW/4 of Section 12, Township 20 South, Range 32 East, NMPM, all of Section 35, Township 19 South, Range 32 East, NMPM, all of Section 31, Township 19 South, Range 33 East, NMPM, and all of Sections 6 and 7, Township 20 South, Range 33 East, NMPM, all in Lea County, New Mexico.

(8) The proposed Yates well is within the designated oil/potash area as described in the New Mexico Oil Conservation Division/Commission Order No. R-111-P ("Order R-111-P").

(9) Order R-111-P provides that for wells on State Lands or on Federal Lands, the Division shall inquire of the New Mexico State Land Office ("SLO") or the United States Bureau of Land Management ("BLM"), as the case may be, as to whether the lands involved are within an area designated a Life of Mine Reserve ("LMR").

(10) According to Order R-111-P, an LMR determination by either the SLO or the BLM is within the exclusive authority of those agencies and such a determination by them is binding upon the Division.

(11) However, Order R-111-P makes no provision for an LMR determination when the proposed well is located on fee lands, nor does Order R-111-P authorize a potash lessee to designate an LMR over lands not leased to that potash lessee.

(12) While this particular matter is yet unresolved, it is a moot issue in this particular instance in that the proposed well location is within the half-mile buffer zone of a declared and recognized LMR filed by Noranda and designated by both the BLM and SLO.

(13) Sub-part G(e)3 of the Rules and Regulations Governing said oil/potash area, Order R-111-P, provides that;

application to drill in the LMR area, including buffer zones, may be approved only by mutual agreement of lessor and lessees of both potash and oil and gas interests".

(14) Snyder Ranches, as the owner of the unleased potash underlying its acreage, has consented to Yates drilling the Snyder "AKY" Well No. 1 and desires to have its oil and gas minerals developed first and in preference to any potash reserves underlying its fee property.

(15) Yates has followed the provisions of Order R-111-P, sub-part G(e)2, which requires it to provide notice of its intent to drill to all potash lessees within one mile of the proposed well location.

(16) The subject Noranda Minerals, Inc. application should therefore be denied and the Yates Petroleum Corporation's "Application for Permit to Drill" the Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico, remain in full force and effect.

(17) At the time of the hearing Yates presented two casing and cementing plans for the subject well as shown in Exhibits 12 and 12A. The proposal submitted in Exhibit 12A calls for four strings of casing all to be cemented back to surface:

20 inch to 1150 feet;  
13-3/8 inch to 3100 feet;  
8-5/8 inch to 4500 feet; and,  
5-1/2 inch to 8000 feet.

This proposed casing and cementing program meet the criteria for wells drilled and completed to the Delaware formation in the oil/potash area, as provided in sub-part D of Order R-111-P.

(18) Exhibit No. 12A in this case should be incorporated by reference into this order.

(19) Subsequent to the hearing both Yates and Noranda requested postponement of a decision in this matter because of a possible financial transaction between Noranda and Horizon Potash Corporation of Carlsbad, New Mexico ("Horizon") and the concurrent negotiations for a mutual agreement of understanding between Yates, Noranda, and Horizon. Such an agreement and transaction could have resulted in a dismissal of this application.

(20) In late April, 1993 the Division was notified that such discussions and possible transaction had terminated and that these proceedings were to resume. Also, at that time both Yates and Noranda submitted the required post hearing findings and memoranda requested by the Division at the conclusion of the hearings. Such information was not received from the third party in this case, Snyder Ranches, until May 26, 1993.

(21) By correspondence dated April 22, 1993, the applicant, Noranda requested this matter be reopened to consider surface ownership of the subject fee acreage as described in Finding Paragraph No. (5), above, and to allow the submission of an Exhibit designated "No. 38", which is a "Subsidence Waiver Agreement" between Kenneth Smith, Inc. and Noranda.

(22) As provided in sub-part H of Order R-111-P, a representative of Noranda or a representative of any potash lessee within one mile of the Snyder "AKY" Well No. 1 may be present during drilling, cementing, casing, and plugging of said well to observe conformation with all requirements of Order R-111-P and of this order.

(23) Many of the same technical issues such as waste, safety, and the methodology of determining LMR's brought out in this case paralleled those of said Commission Cases 10446 and 10447. The fundamental difference still remains however that all parties owning potash and oil and gas interest underlying a particular lease reached an agreement on the extraction of their minerals. Further, the Division's potash/oil and gas rules provided the opportunity for those lessors owning potash leases within a mile of the proposed well to present evidence and air its concerns and gives them the opportunity to witness the critical operations over the life of the subject well.

**IT IS THEREFORE ORDERED THAT:**

(1) The application of Noranda Minerals Inc. ("Noranda") to rescind or deny approval of an "Application for Permit to Drill" authorizing Yates Petroleum Corporation ("Yates") to drill its Snyder "AKY" Well No. 1 at a standard oil well location 2310 feet from the South line and 990 feet from the West line (Unit L) of Section 1, Township 20 South, Range 32 East, NMPM, to test the Delaware formation, Lea County, New Mexico, is hereby denied.

**IT IS FURTHER ORDERED THAT:**

(2) The Yates Petroleum Corporation "Application for Permit to Drill" said well is hereby in full force and effect.

(3) The Division shall take administrative notice of Noranda's correspondence to the Division dated April 22, 1993 and Yates' response; however, such Motion to Reopen and Supplement the Record in this case is hereby denied.

(4) All provisions of Commission Order R-111-P applicable to the casing, actual drilling, cementing and plugging of a deep well within the "Designated Potash Area" shall be strictly adhered to.

**FURTHER**

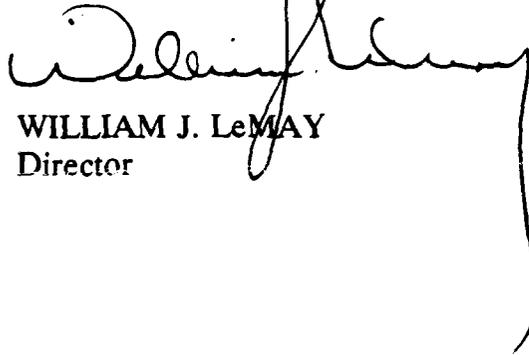
(5) Yates shall cause its Snyder "AKY" Well No. 1 to be cased and cemented in the manner described in Finding Paragraph No. (17), above. Additionally Yates' Exhibit No. 12A presented at the time of the hearing shall be incorporated by reference into this Order.

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(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY  
Director

SEAL